# Mapping of financing instruments and practice for MSMEs in the Republic of Moldova

Final report

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| | |
|---|---|
| **COVID-19** | The SARS-CoV2 respiratory virus |
| **EIB** | European Investment Bank |
| **ERBD** | European Bank for Reconstruction and Development |
| **FAO** | Food and Agriculture Organization |
| **GDP** | Gross Domestic Product |
| **IOM** | International Organization of Migration |
| **MAI** | Ministry of Internal Affairs |
| **MFA** | Ministry of External Affairs and European Integration |
| **MOJ** | Ministry of Justice |
| **MSME** | Micro, Small and Medium enterprises |
| **MSMPS** | Ministry of Health, Labor and Social Protection |
| **NBM** | National Bank of Moldova |
| **NBS** | National Bureau of Statistics |
| **NEA** | National Employment Agency |
| **ODIMM** | Organization for Small and Medium Enterprises Sector Development |
| **UNDP** | United Nations Development Programme |
| **USAID** | United States Agency for International Development |
| **WB** | World Bank |

# Executive Summary

Micro, small, and medium sized enterprises (MSMEs) represent the backbone of the Moldovan economy, and as such are the focus of a multitude of governmental and donor programmes. UNDP has a comprehensive, multifaceted set of programmes in support for MSMEs.

For a better response and recovery to the COVID-19 crisis, UNDP has been engaging in a dialogue with the MSME stakeholders, in partnership with the Ministry of Economy and Infrastructure, preliminary early anti-COVID-19 measures, and high-level policy guidelines. In line with these efforts, PwC is the contracted partner, to conduct this study with focus on access to finance of MSMEs in the Republic of Moldova.

## *1*

## *Purpose and scope of the study*

The scope of this report is to **undertake a comprehensive research around current financing practices and outlook of micro, small and medium enterprises (MSMEs)** in the Republic of Moldova. The research involves mapping the financing instruments used, identifying current barriers and success factors, and assessing current practical gaps.

The purpose of the study is **providing policy and programmatic recommendations** to enhance access to finance and to identify opportunities and entry points for UNDP intervention with the purpose of filling the funding gap created by the COVID-19 crisis, and nurturing sustainability and further development and growth of MSMEs.

## *2*

## *Methodological approach*

In order to ascertain the financing landscape, the needs, and the gaps – the methodological approach emphasized triangulation of multiple data sources through three phases.

The first phase was desk-research-based and aimed at developing initial hypotheses (this included a historical look into the portfolio evolution in Moldova). The second phase aimed to validate the hypotheses through: i) a MSME survey and ii) consultations with relevant stakeholders (from across a spectrum of public sector entities, business associations, and development partners). Finally, the third phase refined the conclusions and synthesized the relevant data points for potential policy recommendations.

## *3*

## *Economic context and importance of MSMEs*

In 2020, as the COVID-19 pandemic unfolded, the Moldovan GDP decreased -7.0% year-on-year. As of Q3 2021 YTD, GDP has rebounded +10.3%, however the growth has not been distributed homogeneously. Figures from the National Bureau of Statistics show **that overall MSMEs have already experienced a higher contraction in sales than large companies**. In 2020, MSME revenues dropped -4.6% year-on-year, while in case of large companies, the reduction was lower: -3.6%. What differentiate the MSMEs compared with larger companies is usually access to liquidities or lack of fast adaptability in supply chains.

Nevertheless, **MSMEs play a critical role in the Moldovan economy**. As of 2020, they represent about 98.6% of total companies and more than 60.1% of employment. The relative importance of MSMEs to local communities can be brought into perspective when considering that for a number of rayons, more than 95% of all local jobs (in some cases closer to 100%, for example Șoldănești) are created by MSMEs. Formal MSMEs contributed up to 50.9% of national income (GDP) in the economy in 2019. Also, MSMEs generated 51.9% of all gross value added (GVA) in the economy, with the relative contribution of MSMEs to the specific sectoral activity being as high as 88.5% in professional and technical services and 85.9% in trade. Thus, in a climate of disruption and uncertainty, programmes and strategies aimed at supporting MSME's access to finance are warranted.

## 4

## *Review of instruments and highlights of MSME financing*

MSMEs financing instruments could be divided on several characteristics: (i) nature of financing: traditional or alternative; (ii) necessity of extra-funds: reimbursable, grants or mixed financing; (iii) origin of funding sources: internal or external. **Reflecting on the current practices of MSME financing, the orientation towards traditional instruments stands out**, together with the lower familiarity with more alternative financing sources.

**The financial system in Moldova revolves to a large extent around commercial banks.** In perspective, the data of non-banking system reveals that the total loan volume was around MDL 2.4 bn. compared to MDL 25.4 bn. of private non-financial loans offered by the banking system as of August 2021.

In recent years, the bank loans to MSMEs have been increasing from MDL 12.6 bn. in September 2017 to MDL 15.5 bn. in September 202. However, the share of MSME loans in total loans has been diminishing from 37.2% in September 2017 to 29.2% four years later. This reflects **lower risk appetite of banks and deterioration of loan applications from MSMEs in the past four years fueling the development of microfinance institutions**.

## 5

## *Current and future financing needs*

In addressing the current and future financing needs, a two-fold approach was taken. From a macro perspective, **the MSME finance gap was estimated at around 4.9% of GDP or USD 580 mil.** in the Republic of Moldova. This figure is calculated by taking the potential MSME loans of GDP of 10.4% (estimated through an econometric model based on regional peers) – and subtracting the current level of 5.5% MSME loans of GDP. Further sector analysis suggests that **agriculture and trade sectors are relatively more indebted than similar countries in the region**. At the same time, **industry, services and transport and communications sectors absorbed less loans relative to the GDP compared to other countries in the region**. This implies that the MSME finance gap can be filled by putting more efforts to extend loans to those sectors.

From a micro-perspective (survey data), **around 2 in 5 companies declared they are planning to seek finance in the next year.** The intention to seek resources decreases with firm size, illustrating the stronger financial position that comes with scale, allowing larger companies to finance somewhat on a cashflow basis. At the same time, during consultations with stakeholders, opinions were expressed in favor of interventions more targeted towards later stages of MSME life cycle (not only for the start-up phase). **The highest intention to seek financing of all subgroups was among business operating in a rural environment** (46.7%). In terms of the amount expected to be required, the sample mean was 3.3 mil. MDL and the median 1.0 mil. MDL. Though the intention to raise funds in the upcoming period was similar for both genders, female-managed businesses indicated a higher amount to be sought (median 1.5 mil MDL) versus male-managed businesses (median 1 mil. MDL).

The perception of financing availability reflects for the most **part pessimism about the external environment, with more positive expectations around firm specific factors**. When looking at the net sentiment (% of companies experiencing improvements over the past 6 months - % of companies experiencing worsening over the past 6 months), most intense worries were found with respect to the external environment (-25% net sentiment) and sales outlook and profitability (-11.5%). Perhaps **somewhat surprisingly, there was a uniform perception that bank lending has increased** (+17.8% net sentiment), along with the willingness of trade partners to provide commercial credit (+9.3% net sentiment).

Moreover, when looking ahead at the future availability of financing sources over the next 6 months, **equity capital availability was expected to improve the most (32.1% of respondents), followed by bank loans (25.9%) and bank overdrafts or credit lines (23.9%).** There was a notable difference of perception between development partners support and government support: while the former was expected to improve by 23.9% of MSMES and to worsen by 5.1% - government support was seen through a less hopeful lens, with 20.0% of MSMEs expecting improvements and 14.8% expecting worsening availability. These findings somewhat reflect **the gradual improvements in the economy following the 4th pandemic wave, with most MSMEs optimistic about capitalized internal funds and availability of bank loans.**

**The biggest barrier identified by all groups of MSMEs was the price of financing** (i.e the interest rate, 38.2% of respondents), followed by insufficient collateral (12.1%).

## *6*

## *Current practices in MSME financing*

A majority of MSMEs in the survey (57%) used only own funds to finance their business in the past 6 months in 2021. **Overall, 14.8% of companies recorded increases in their balance sheet debt, while 28.3% recorded decreases** in the past 6 months - a finding that may signal **the reluctance of businesses to incur more debt given the pandemic-induced uncertainty**. The largest measured increase in indebtedness was recorded for medium companies – 41.9%. Exporting companies have seen the highest decrease in indebtedness, with 39.2% declaring so, **presumably due to repaying debt and postponing investments in the wake of uncertainty in core foreign markets**.

**With respect to Debt financing instruments, MSMEs displayed use and knowledge that both decreased with the complexity or novelty of the instrument**. Trade credit (31.5%) and other loans from family, friends, crowdfunding and P2P (23.1%) were the most used instruments for bootstrapping a business. At the opposite end, while 55.9% were familiar with bond issuance – only one company used it. Similarly, with mezzanine financing or subordinated debt. **Hence, at the current time, traditional instruments still dominate the mindshare of companies. However – some newer alternative instruments (fintech loans, crowdfunding) have the potential to be adopted** – to the extent they resemble some traditional instruments, and their complexity is not prohibitively high.

**Looking at Equity-based instruments, MSMEs signaled overall familiarity with the instruments, but rather low use**. The most used, as to be expected, was retained earnings (16.1% of companies used it in the past 6 months). The other options had very low usage. Selling an equity stake to a private investor, business angel, or venture capitalists was the second option in terms of familiarity, but with only 1.6% of companies using it. **The difficulties and transaction costs associated with finding a partner to sell equity, make this more of a circumstantial opportunity for entrepreneurs, rather than a reliable instrument**. Similarly, with listing the company on a public stock exchange (which 0.7% of respondents, two companies) have used. **The lack of developed capital market infrastructure in Moldova makes equity financing an unattractive financing option, unless they are considering listing abroad** (during the consultations organized by PwC various stakeholders have mentioned registering businesses in particular in the Baltics or other similar jurisdictions).

**Concerning Government-backed instruments, government grants were the most used** (by 8.0% of MSMEs), with 4.0% of companies using **a subsidized bank loan (which was the most familiar option for respondents)**. Start-up incubators were used by 3.6%

of respondents – mainly Micro companies. Statistically, most of the companies that took government grants are medium size enterprises.

**Looking at Development Partner-backed instrument, the most used and the most understood instrument was micro-finance lending**, through non-banking organizations (8.0% of MSMEs used and 57.8% have not used but are familiar with respective products). **Despite increased awareness among respondents, only 2.6% accessed a loan through development projects like Livada Moldovei or EBRD-financed SME loans**. Less than half of MSMEs were acquainted with Crowdfunding as an alternative financing instrument, although in adjacent countries we can see a rise in pre-seed financing.

Consistent with the views on financing instruments, MSMEs display similar awareness of financing actors. Leasing and hire-purchase (45.8%) and Asset-based lending institutions (40.2%) were most known in terms of product understanding and knowledge of how to approach. **Roughly a third of respondents (35.0%.) declared they understand how to approach Development Partners**, but only 18.2% did so for Crowdfunding or P2P Lending. **Government schemes had an even lower familiarity** (only 17.5% having comp

**When a financial need was identified – going to the bank was the first point of contact** among the enterprises in the survey. This finding was somewhat moderated by the gender of the manager, with female-led businesses showing a lower intention of going directly to the bank (26%) than male-managed ones (38%). **The own accountant of each firm is the next in line for getting information**, based on capitalized trust (7% overall). **A large difference was found between Urban and Rural business with respect to analyzing local or government grants:** for the former only 1% did so when a financing need was identified – for the latter 14% did so. This is a strong indication of the importance of government support for the rural businesses, mostly of which operate in Agriculture related environments).

**Overall, MSMEs use of financing sources and awareness of financing actors point to immediate needs for financial education**, as when asked about the awareness of some of the most plain vanilla financing sources, the perception is that most of them are not well known by the respondents.

**The main reason for seeking finance was working capital or cashflow needs (17.1%)** Variation among the respondents was highest based on industry, and not as high based on rural/urban environment, gender of manager. As such, inventory-intensive industries such as trade had an even higher need for working capital (25.2%), whereas non-intensive ones like professional activities had a lower need (2.57%). Purchase of fixed assets was the second most common reason overall (11.6%), with businesses in Agriculture particularly assertive (18.6%) in this area.

In relation to the suppliers of finance, **overall, MSMEs had a median of one finance supplier, who for 41% of respondents was a bank**. **Rural businesses had the highest preference for only one supplier** (43%) – well above urban businesses (from which only 28% would prefer only one supplier). This result highlights the orientation towards long-term relationship development for rural businesses, which can be underpinned by a lower access to finance in these environments. A lower provider presence in rural areas translates to higher search costs for rural MSMEs. **The main factor that would determine companies to consider an alternative supplier is a lower cost** (either interest rate or lower equity stake), which was indicated by 51% of MSMEs overall.

Regarding experiences with applications, from the total number of companies, 45.3% had indicated they sought finance on the last occasion (Figure 45). The most utilized instrument by MSMEs remained the bank loan (overall 21% of respondents filling an application previously), followed by bank credit lines, bank overdrafts or bank credit cards (17% of respondents filling an application). **Applications for bank loans had a higher success rate (74% of applications receiving full amount requested or at least half of it) compared with bank credit lines, overdrafts, or bank credit cards (only 59%)**. This may reflect the tightening of lending standards by banks during the pandemic, with a stronger preference for safe projects (i.e., more collateral), rather than funding riskier working capital part of the balance sheet. **Companies with a female manager had a lower success rate in applying for a bank loan** (57% got full amount requested or at least half versus 79% companies with male manager). For banks credit lines, the acceptance rate was roughly equal (60%).

# 7 *Policy recommenda-tions*

Given the strong orientation of Moldovan MSMEs towards traditional instruments, in particular bank loans – and the finding that the main limiting factor in obtaining funding is the interest rate (or price), due attention should be given to these issues. In addition, the development of alternative financing sources is also a key theme. It is also important to ensure that MSMEs financing is available along its entire lifecycle. In addition to start-up capital, it is essential to target financing at other stages of company development as well (i.e., scaling up) to provide capital for growth, not solely idea origination.

Thus, six groups of programmatic entry points are suggested as follows:

- **Enhance traditional-asset-based finance instruments** – Aid the National Bank of Moldova to implement a Basel III transposition considering the particularities of financing for SMEs, forming the set of derogations from the general rules based on the world best practices.
- **Develop alternative-asset-based finance instruments –** A guarantee fund of factoring contracts for specific industries (export oriented); and adjusting tax legislation on income tax deductions and VAT to boost the use of factoring and leasing
- **Boosting Equity Financing and other Capital Market instruments** – Technical assistance should be provided to the Ministry of Economy and the Ministry of Finance to accelerate the implementation of the law on crowdfunding and the collateral regulatory framework (fiscal, accounting) and the subordinate regulatory framework. Another exercise could be focused on business angels' legislation. Technical and financial support could also be provided to the Minister of Economy and ODIMM for the development of semi-public crowdfunding tools under the auspices of ODIMM. UNDP's technical and financial assistance can also be channeled to the Ministry of Economy, the Ministry of Finance and the National Commission of the Financial Market to implement an equity fund with mixed participation (state, private, donors) meant to finance SMEs. The last involvement should be financing private pension funds to ensure access to long and cheaper finance to MSMEs.
- **Government direct supporting** – Provide financial and technical assistance to ODIMM to develop a special line of financing "development over time," not just in the start-up phase, but also at scale-up or even maturity phase with the focus on women's entrepreneurship and extend it to special needs people to ensure a more extensive inclusion and better chances for as many social categories as necessary
- **Increasing the level of financial literacy and access to information** – d Provide technical and financial assistance to the Ministry of Economy and ODIMM to develop The Access to Finance Information Aggregator and is Cost of Finance Calculator for MSMEs. Also, to assist ODIMM in developing and implementation of National Information Campaign to spread as much as possible the word about the possibilities that exist in finance the business activity for MSMEs and the tools that exist to get more informed and updated on this business activity for MSMEs and the tools that exist to get more informed and updated on this.
- **Transnistria** – The existing funding line should be increased to cover other phases in the work of Transnistrian MSMEs and the inclusion of different categories of beneficiaries than young people up to 35 years of age.

# 1 Introduction and background

## 1.1 The economic context in Moldova

Assessing the broad economic context in Moldova leads to an appreciation of both the economic achievements of the past years, as well as the important risks facing the country in the medium term.

To some extent, Moldova has modernized its economy prior to the pandemic. Looking at the average rates of growth from 2011 to 2019, hence removing the immediate effects of the 2008 crisis, Moldova (at +4.0 % average for the period) grew faster than both the EU (+1.5 %)[1], the Russian Federation (+1.7%)[2], and some regional peers like Belarus (+1.2%) and Ukraine (+0.1%). Table 1 below presents the main yearly economic figures for the period 2016-2020, during which, economic growth has translated into a +58% increase in the GDP per capita, from 2.9 thousand USD in 2016 to 4.5 thousand USD in 2020.

However, Moldova is also facing an important demographic decline trend, with the resident population decreasing by 180.5 thousand inhabitants in the past five years – equivalent to a compound rate of -1.6% per annum. Driven by emigration, the structure of the population is also undergoing changes, with the so-called demographic burden[3] increasing from 63.7% in 2016 to 68.4% in 2020.

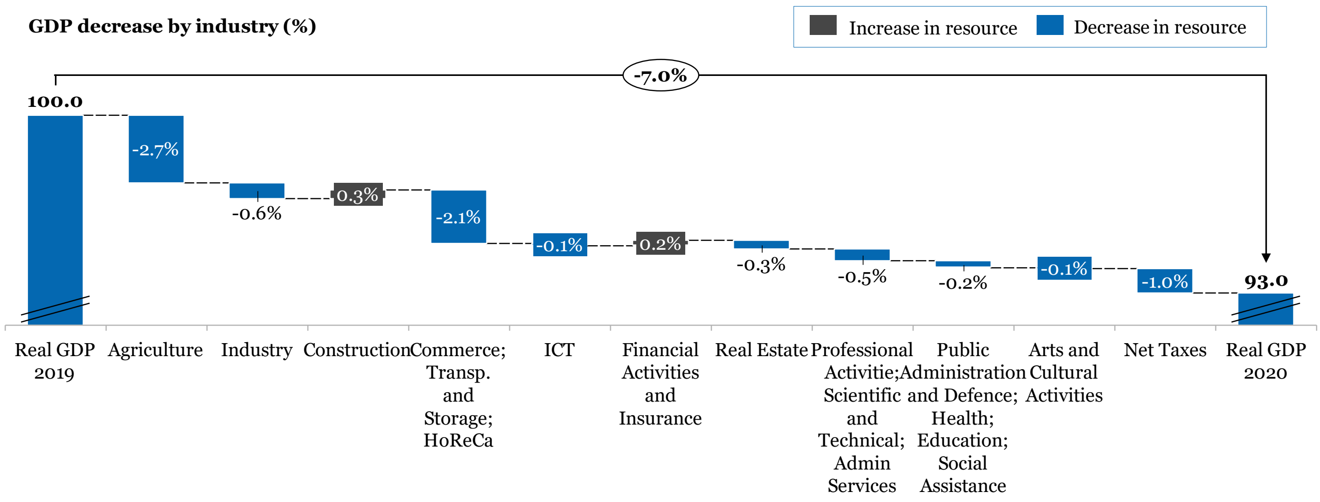
*Table 1. Moldova Key Economic Figures*

| Indicator | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| **Population** (thousands. inhabitants) | 2,824 | 2,780 | 2,730 | 2,686 | 2,644 |
| **Nominal GDP** (current prices, billion MDL) | 160.8 | 178.9 | 192.5 | 210.4 | 206.4 |
| **Real GDP growth** (%, year-on-year) | 4.4 | 4.7 | 4.3 | 3.7 | -7.0 |
| **GDP per Capita** (current prices, USD thousands) | 2.9 | 3.5 | 4.2 | 4.5 | 4.5 |
| **Consumer prices** (average %, year-on-year) | 6.4 | 6.6 | 3.0 | 4.8 | 3.8 |
| **Producer prices** (average %, year-on-year) | 6.3 | 4.5 | 3.3 | 0.4 | 1.8 |
| **Public Debt** (total, % of GDP) | 38.3 | 28.9 | 27.0 | 25.0 | 32.9 |
| **Public Budget Deficit** (% of GDP) | -1.6 | -0.6 | -0.8 | -1.4 | -5.2 |
| **Current Account Deficit** (% of GDP) | -3.5 | -5.7 | -10.4 | -9.3 | -6.7 |
| **ILO Unemployment Rate** (yearly average %) | n.a | n.a | n.a | 5.1 | 3.8 |
| **Real Wage Growth** (%, year-on-year) | 3.6 | 5.1 | 11.5 | 9.1 | 6.2 |
| **Financial Intermediation** (banking assets % of GDP) | 45.3 | 44.4 | 43.2 | 43.1 | 50.3 |
| **Personal Remittances, received** (% of GDP) | 18.2 | 16.9 | 16.0 | 16.0 | 15.8 |
| **Foreign Direct Investment, net inflows** (% of GDP) | 1.1 | 1.5 | 2.5 | 4.2 | 0.5 |
| **Exchange Rate MDL/USD** (yearly average) | 19.92 | 18.49 | 16.80 | 17.58 | 17.32 |
| **Exchange Rate MDL/EUR** (yearly average) | 22.05 | 20.83 | 19.84 | 19.67 | 19.74 |

*Source: National Bureau of Statistics (BNS), National Bank of Moldova (BNM), Ministry of Finance (MoF), The World Bank (WB)*

[1] Eurostat – European Neighborhood Policy - East - economic statistics, April 2021, link
[2] The World Bank – Data bank, link
[3] Demographic burden refers to the ratio of non-working age population (under and over) relative to the working age population

*Figure 1. Real GDP growth walk, year-on-year, 2019-2020 [%]*




*Source: National Bureau of Statistics*

After overcoming a banking crisis in 2014-2015, the economy was slowing down in 2019, reflecting regional and global trends. In 2020, as the COVID-19 pandemic unfolded, the Moldovan GDP decreased -7.0% year-on-year. Figure 1 presents a breakdown of this decrease, from the production perspective.

The highest contribution to the GDP decrease came from Agriculture, which accounted for -2.7% decrease of GDP. The Agricultural sector, which made up 9.8% of total GDP and employed 23.3% of the labor force[4]. The large contraction came from a combination of factors, including lack of access to markets (due to the restrictions imposed), as well as unfavorable climatic conditions that led to a drought and a significant compromise of autumn crops. This outcome reconfirms the importance of investment in irrigation systems to upgrade some of the current deficient infrastructure.

The second highest contribution to the GDP decrease came from Commerce, Transportation and Storage, and HoReCa sector, which accounted for -2.1% decrease of GDP. This sector made up 20.7% of total GDP. This sector was strongly influenced by the restrictions imposed. In particular, enterprises operating HoReCa activities were the most affected, with the average number of employees decreasing[5] in Q2 of 2020 (compared with the similar period of 2019) with more than 60%.

From an expenditure perspective of GDP, in 2020 household consumption was down -5.8% and investments were also down to -1.3%. However, strong domestic demand has driven a rebound in economic activity in the first half of 2021. Figure 2 presents the quarterly evolution of GDP for the period 2019-2021, up to the latest available data.

For the first semester of 2021, GDP is up 11.7% versus the same period of the previous year. Positive contributions to GDP growth were recorded for final consumption of households – which contributed +11.9% to GDP, as well as investments – contributed +13.7% in total (gross fixed capital formation and inventory variations), which were offset by a -13.9% negative contribution of net exports. Notable increases production wise came from the Public Administration and Defense, Social Contributions, Education, Health and Social Assistance – which contributed +2.3% to GDP growth, reflecting the priorities in combating the pandemic.

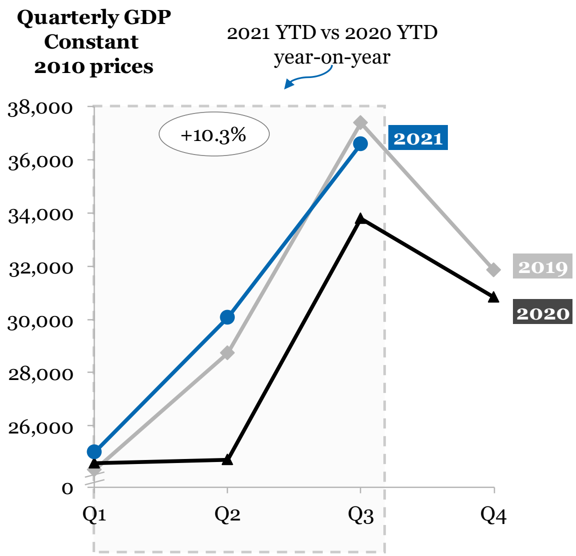
Following the release of the Q2 figures, the World Bank expects a +7% GDP growth in Moldova, arguing that "*strong increase in wages, remittances, and social transfers contributed to a robust increase in private*

[4] The National Bureau of Statistics – National Labour Survey: Participation and Unemployment in Q2 2021, link
[5] The National Bureau of Statistics – Average monthly earnings in the second quarter of 2020

*consumption"*[6]. The IMF also raised its forecast[7] to around +7.1% (versus initial 4.5% at the beginning of the year).

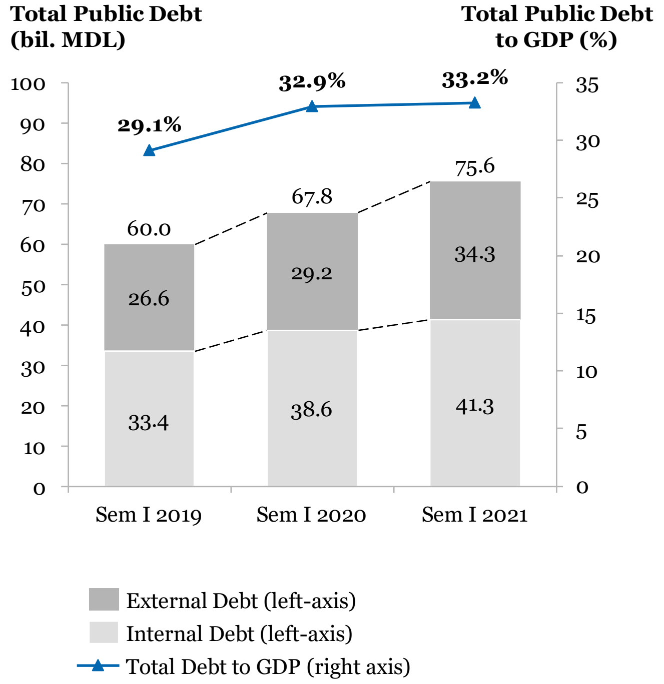
[6] The World Bank in Moldova – Recent Economic Developments, link
[7] International Monetary Fund Press release no 21/307, link

*Figure 2. Moldova quarterly GDP evolution in 2019-2021 [constant 2010 prices USD]*




*Source: National Bureau of Statistics*

*Figure 3. Evolution of Public Debt, Semester I 2019-2021 [%, bn. MDL]*




*Source: Ministry of Finance*

On the fiscal front, the Public Budget deficit jumped sharply to -5.2% of GDP in 2020, driven pressure on both sides of the budget execution. Budget revenues decreased -0.5% year-on-year, while budget expenses expanded +10.0%. Main increases in spending categories were allocated to social protection (2.69 billion MDL, +11.5%), services related to the economy (1.68 billion MDL, +23.3%), health services (+1.36 billion MDL, +15.7%).

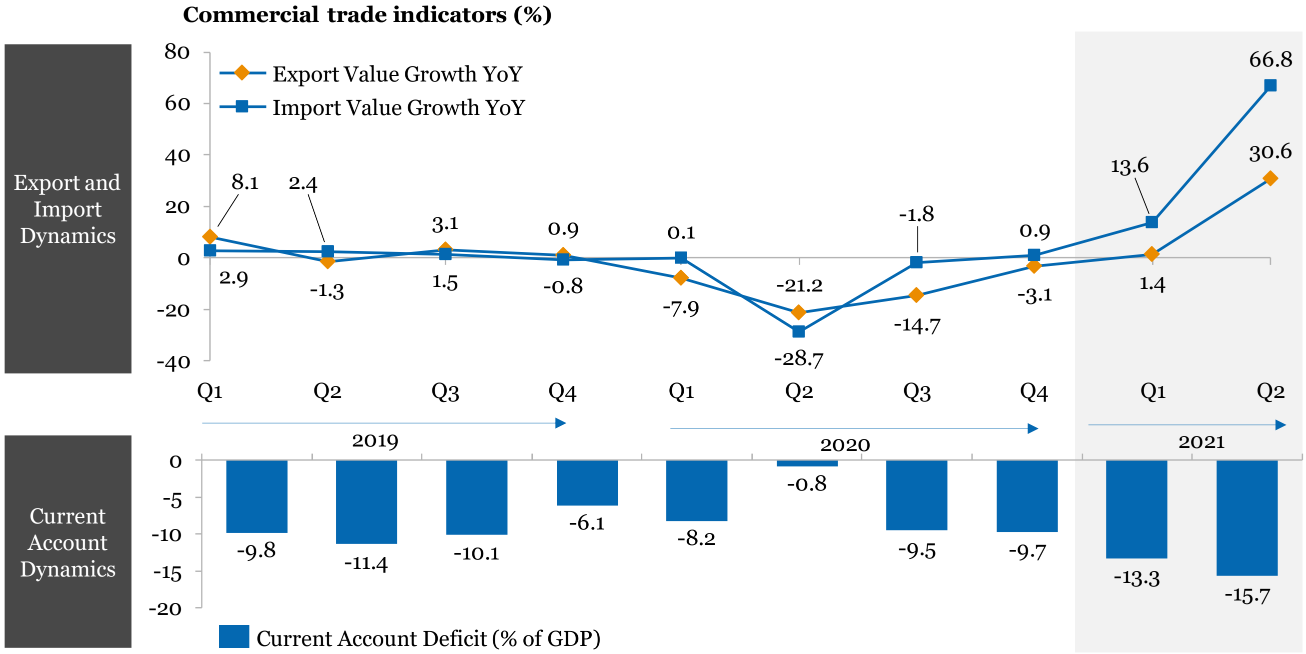
Given the expansion of support measures for the Moldovan economy and society, Total Public Debt has increased to 33.2% of GDP in the first half of 2021, in amount of 75,578 million USD, as reflected in Figure 3. On 21st of October 2021, the IMF and the Moldovan authorities have announced a staff-level agreement on a 40-month 564 million USD economic reform program to be supported by three-year Extended Credit Facility and Extended Fund Facility (ECF/EFF) arrangements[8].

Personal Remittances have been surprisingly resilient – both in absolute value, and as a share of GDP. In a rapid assessment[9] performed by the International Organization for Migration (IOM) in May 2020, it was found that 47% of responding migrant workers had lost their job or had their activity suspended, and that 18% estimate they will not be able to remit at all in the proximate future. Similarly, in the SEIA[10] commissioned by UNDP, PwC found that 22% of respondents experienced quasi-total income loss (between 75% to 100% of regular income). Nevertheless, remittances have amounted to 1,810 million USD in 2021 versus 1,817 million USD in 2019, thus a -0.4% decrease. In the first Semester of 2021 however, personal remittances grew +15.6% versus the same period of the prior year, with by EU and other countries sourced increase, while CIS saw decreases. Personal remittances amounted to 16.4% of GDP in the first half of 2021 (-0.3pp)[11].

Foreign Direct Investment on the other hand have contracted to 0.5% of GDP in 2020 (versus 4.2% of GDP in 2019). In the first Semester of 2021, Foreign Direct Investment amounted to 1.4% of GDP, stimulated by profit reinvestment.

[8] International Monetary Fund Press release no 21/307, link
[9] International Organization for Migration – Rapid Assessment of COVID-19 impact on the welfare of Moldovan migrant workers: Empirical data on the strategies and contributions of migrants
[10] Social and Economic Impact Assessment of the COVID-19 pandemic on vulnerable groups and economic sectors in Republic of Moldova commissioned by UNDP and performed by PwC
[11] National Bank of Moldova – International Accounts of the Republic of Moldova: Balance of Payments, International Investment Position and External Debt, Preliminary 2021 Q2 Data

*Figure 4. Evolution of commercial trade indicators, 2019-2021 YTD [%]*




*Source: National Bank of Moldova (BNM)*

Prior to the COVID-19 pandemic, Moldova has experienced a gradual increase in the Current Account deficit – peaking at -10.4% of GDP in 2018, followed by a decrease up to -6.7% of GDP in 2020, explained by a slowdown of imports. In 2021 Moldova's Balance of Payments has witnessed a rather unfavorable evolution, with the Current Account deficit continuing to increase (both in absolute and relative terms). For Semester I of 2021, the current account deficit stood at 860.12 million USD, equivalent to -14.6% of GDP, increasing in the second quarter[12].

Preliminary Q2 2021 data reveals that the Current Account recorded a deficit of 506.52 million USD. As a percentage of GDP, the deficit widened to -15.7% (versus -0.8% in the same period of 2020), presented in Figure 4. The Capital Account recorded a negative balance of 17.96 million USD, and the Financial Account recorded net positive inflows of 486.07 million USD[13].

The Current Account deficit has continued to be driven by a negative goods trade balance, of 2,017.9 million USD in Semester I of 2021. By August 2021 the goods trade deficit has increased to 2,594.8 million USD. The evolution took place on the back of imports outpacing exports, culminating in Q2 2021 with a +66.8% year-on-year increase in the value of imports versus a +30.6% increase in the value of exports, as shown in Figure 4. It is interesting to note that although prices for exported goods have increased +13.6% in Q1, the physical volume was down -10.7%, resulting in a slower increase in overall exports value. In Q2, both the prices have picked-up with +13.6%, as well as physical volume with +18.1%. Imports on the other side have grown both in Q1 +9.2% in terms of prices and +9.2% physical volume, and Q2 +16% in terms of 43.8% in terms of physical volume.

The trade of goods has been the main source of deficit. Data for January-August 2021 highlights the fact that six good sections of the International Trade Standards Classifications (Rev4) make up 94.9% of all imports. These are: automobiles and transportation equipment (25.6%) , finished goods (19.0%), chemical products (15.2%), mineral fuels (12.5%), miscellaneous manufactured goods (11.6%) and food and livestock (11.0%)[14].

[12] National Bank of Moldova – International Accounts of the Republic of Moldova: Balance of Payments, International Investment Position and External Debt, Preliminary 2021 Q2 Data
[13] Ibid.
[14] National Bureau of Statistics – International goods trade of Moldova in August and January-August 2021

For the trade of services however, during the first semester of 2021, Moldova recorded a surplus 206.06 million USD, a growth of +22,4% year-on-year. Main contributing sectors were travel services (+30.6%), IT services (+31.6%), and processing of raw materials (+23.7%).

*Figure 5. Prospects for main trading partners of Moldova, Semester I 2021 [specific units]*

**Top 5 export partners**

| Country | Total Amount (Semester I 2021, mil USD, direction YoY) | Share of Total Exports (Semester I 2021, %) | COVID-19 Cases (Total confirmed per million) | GDP growth 2020 (%) | GDP forecast for 2021 (%) |
|---|---|---|---|---|---|
| Romania | 372.8 ▲ | 28.0% | 85,770 | -3.9 | 7.0 |
| Germany | 134.6 ▲ | 10.1% | 54,928 | -4.6 | 3.0 |
| Russian Federation | 128.5 ▲ | 9.7% | 57,144 | -3.0 | 4.7 |
| Turkey | 114.8 ▲ | 8.6% | 94,176 | 1.8 | 9.0 |
| Italy | 94.2 ▼ | 7.1% | 78,973 | -8.9 | 5.8 |

**Top 5 import partners**

| Country | Total Amount (Semester I 2021, mil USD) | Share of Total Exports (Semester I 2021, %) | COVID-19 Cases (Total confirmed per million) | GDP growth 2020 (%) | GDP forecast for 2021 (%) |
|---|---|---|---|---|---|
| Romania | 420.1 ▲ | 12.9% | 85,770 | -3.9 | 7.0 |
| China | 384.6 ▲ | 11.8% | 67 | 2.3 | 8.0 |
| Russian Federation | 375.2 ▲ | 11.5% | 57,144 | -3.0 | 4.7 |
| Ukraine | 295.0 ▲ | 9.0% | 69,929 | -4.0 | 3.5 |
| Germany | 271.9 ▲ | 8.3% | 54,928 | -4.6 | 3.0 |

*Source: National Bureau of Statistics (BNS), International Monetary Fund (IMF), Ourworldindata.org*

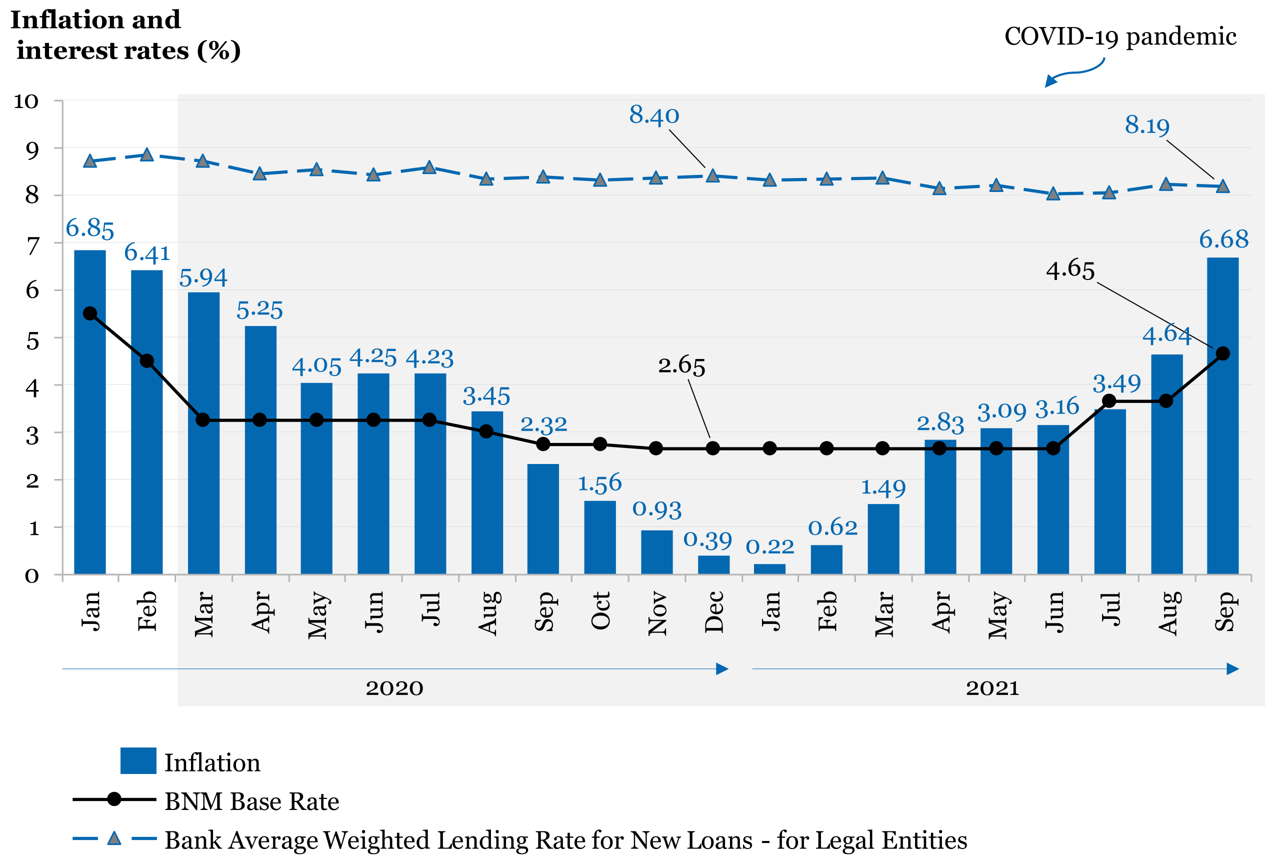
Figure 5 presents the trade volumes and prospects for Moldova's main trade partners. Regionally, recent BNS data for Jun-August 2021 reveal that out of total exports, the largest share of 62.6% was recorded with EU countries (falling as share of total), while 15.6% with CIS countries (falling), and 21.8% with rest of the world (rising as share of total)[15].

During the first half of 2021, exports have increased with all the top 5 partners – except for Italy (which still accounted for roughly 7.1% of Moldovan exports). This dynamic reflects the compression of Italian demand, with Italian GDP being down -8.9% in 2020, though preliminary data for 9 months year-to-date suggest a +6.1% rebound[16].

The largest trade partner overall (28.0% of exports and 12.9% of imports) – Romania – sees strong growth prospects, having a forecasted GDP growth rate of 7.0% for 2021, this also being the growth recorded in Semester 1 of 2021. Nevertheless, downside risks include the fact that Romania also has one of the higher numbers of COVID-19 cases, experiencing a challenging wave four. Strong growth prospects are also forecasted for the Turkish economy (+9% growth for 2021). Elsewhere, The Russian Federation is projected to grow at +4.7% in 2021, Ukraine +3.5%, while Germany 3.0%.

[15] National Bureau of Statistics – International goods trade of Moldova in August and January-August 2021
[16] Instituto Nazionale di Statistica – Preliminary estimate of GDP – Q3 2021, link

*Figure 6. Dynamics of Inflation and Interest Rates, 2020-2021 YTD [%]*




*Source: National Bank of Moldova (BNM)*

On the monetary front, Moldova averaged a 3.8% inflation in 2020 – though the pandemic depressed consumer prices throughout the year, going down every month. The crisis has prompted the National Bank of Moldova to cu bring down the base rate, from 5.5% in January 2020 all the way to 2.65% November 2020, and to bring down the minimum required reserves in MDL[17], from 42.5% in 2019 to 26% in 2020.

However, inflation has made its resurgence, increasing every month in 2021 – up to +6.68% in September 2021. Food prices have reached +8.31% in September, driven by the weak agricultural production of the prior year, raising import prices and increasing operating costs for businesses. Vegetables, potatoes and meat have been notable contributors to food inflation. Non-food prices increased +8.62%, due to fuel increases, but also increased aggregated demand from the population, as real income have increased. As economies have opened and supply-side issues have somewhat resolved, increasing demand has been the main theme emerging. Transportation, cigarettes and travel were the categories with the most notable contributions. The prices of services have been down slightly for the first half of the year, increasing after, up to +1.52% in September 2021. The producer price index was up in the first half, adding pressure on consumer prices, mainly due to increases in food processing costs[18]. In light of this dynamic, the National Bank of Moldova has started raising rates in July 2021, with the base rate reaching 4.65% by September 2021. In its forecast of the components of the CPI, the National Bank of Moldova expects that rate of growth of food prices will continue all the way to Q3 2022, and will stabilize thereafter, while the rate of growth for fuel prices will also be maintained up to the beginning of 2022[19].

During January-September 2021, the average weighted lending rate for new loans in MDL across the whole economy (individuals and legal entities) decreased 122 basis points versus the same period of the same year (from 8.27% to 7.05%), while for legal entities it only decreased 30 basis points (from 8.55% to 8.21%).

[17] The World Bank – Moldova Economic Update, Recent Economic Evolutions, May 2021, link
[18] National Bank of Moldova – Report on Inflation, nr 3, August 2021
[19] Ibid.

## 1.2 The role and importance of MSMEs

Micro and Small and Medium Enterprises (MSMEs) play a major role in the Moldovan economy, particularly considering that there is a developing country. As of 2020, they represent about 98.6% of total companies and more than 60.1% of employment in the entire country, significantly contributing to job creation over the last years. However, in the last decade, the percentage of total employment has remained stable, around the same value. Because of their critical role in adding value to overall economy through job creation and growth, protecting MSMEs during this pandemic and endemic period is important from two perspectives: business continuity and recovery for the economy.

Table 2 presents the distribution of companies in Moldova by size, and their associated level of employment and profitability. Looking at the numbers, the overall number of MSMEs as of December 2020 is recording a small 2.4% increase year-on-year in 2020, after several years with similar growth rates. A particular element that can be noticed for 2020 is the fact that the overall number of MSMEs increased as described above, but the number of employees is -5.7% lower and number of enterprises with profit recorded decreases by -6.0%.

Contribution to job creation is even more important, given the massive migration trends that continues for two decades and created scarcity in finding the right talents. In 2020, the active working force in Moldova reached only 39.7% of total population according to the National Bureau of Statistics in Moldova[20]. Compared to the EU average of 73.2%, the Moldovan percentage of active working force is creating more worrying waves.

Another dimension that is usually shadowed is that MSMEs is the following: they are not only hiring people, but they are also customers to larger companies across the supply chain. If one part is starting to slow down in the chain, the rest of the components move slower, creating a systemic risk. 2020 combined 2 severe situations: the COVID-19 pandemic and a severe drought, with direct impact in the Moldovan economy.

The growth of the productivity of MSMEs is therefore a worthwhile objective to be pursued. Being one of the drivers in the economy of any country, MSMEs need solutions. They play a vital role also by job creation for people, strengthening the perspectives for the communities in which they operate and offering solutions for the ones searching for a job.

*Table 2. Distribution and evolution of MSMEs activity by company size*

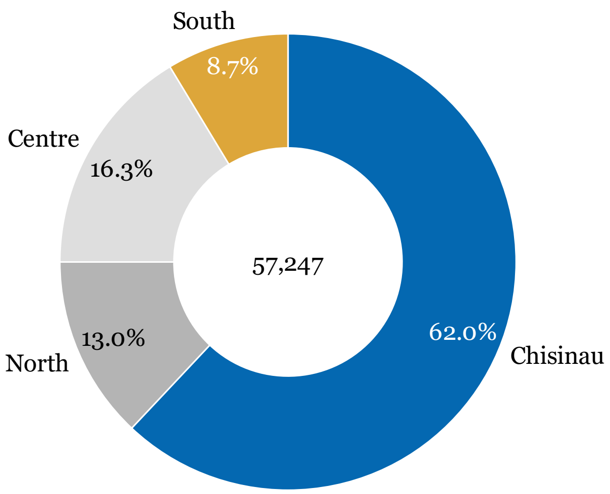
| Enterprises by size | Number of Enterprises | | Average number of employees | | Number of enterprises with profit | |
|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 |
| Micro | 48,056 | 49,562 | 114,413 | 103,461 | 22,326 | 21,267 |
| Small | 6,487 | 6,322 | 118,662 | 113,983 | 4,885 | 4,327 |
| Medium-Size | 1,375 | 1,363 | 102,984 | 99,379 | 1,054 | 968 |
| **Total MSMEs** | **55,918** | **57,247** | **336,059** | **316,823** | **28,265** | **26,562** |
| Large | 796 | 816 | 216,054 | 209,915 | 688 | 651 |
| **Total Companies** | **56,714** | **58,063** | **552,113** | **526,738** | **28,953** | **27,213** |

*Source: National Bureau of Statistics (BNS)*

*Note: Big enterprises: >249 employees and turnover >50 Mil MDL; Medium enterprises: <249 employees and turnover <50 Mil MDL, except small and micro enterprises; Small enterprises: <49 employees and turnover <25 Mil MDL, except micro enterprises; Micro enterprises: <9 employees and turnover <9 MDL LEI;*

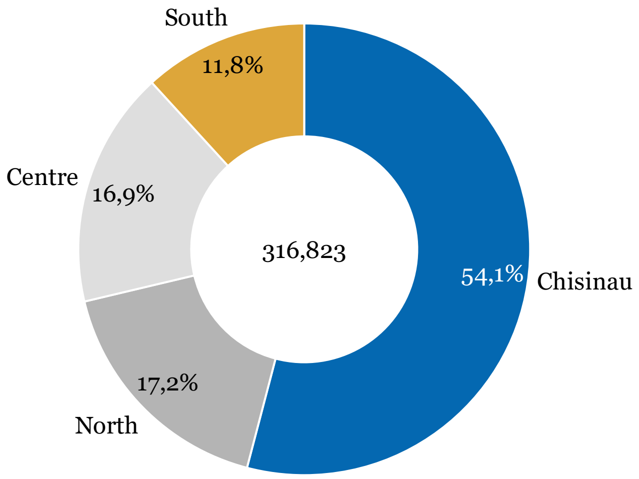
[20] The National Bureau of Statistics – National Labour Survey: Participation and Unemployment in Q2 2021, link

*Figure 7. Distribution of MSMEs by geographic areas*



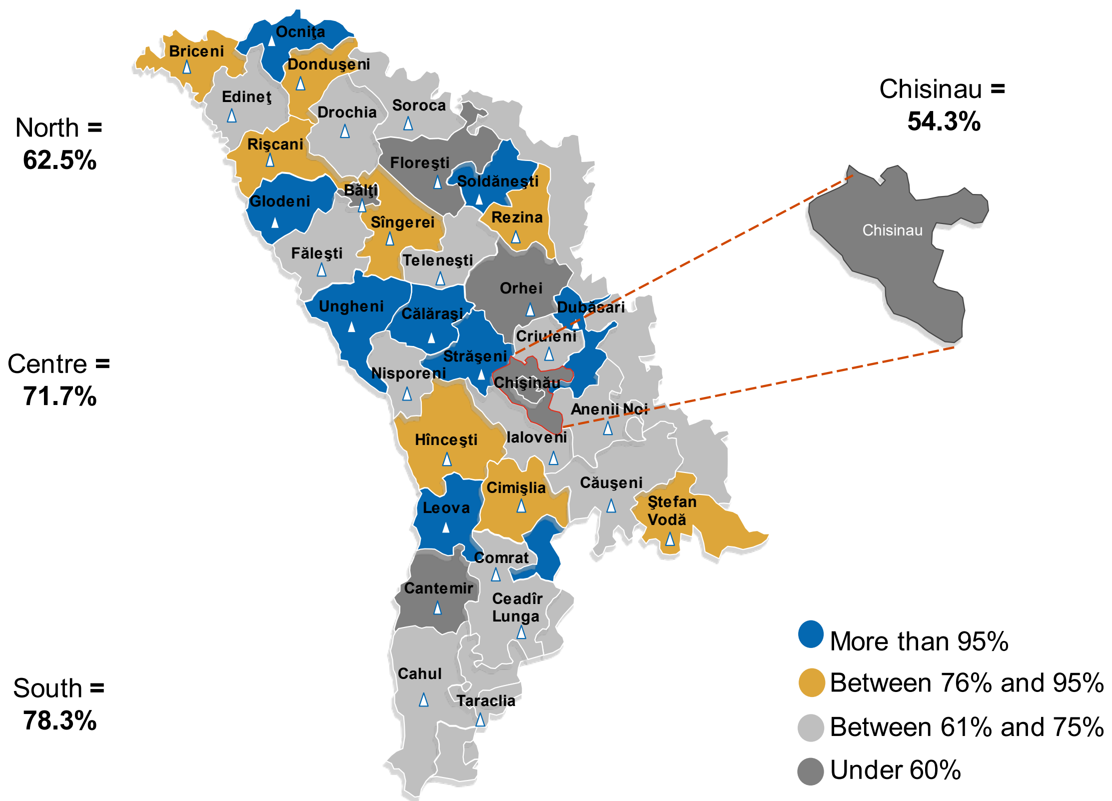

*Source: National Bureau of Statistics*

*Figure 8. Distribution of employees working in MSMEs by geographic area*




*Source: National Bureau of Statistics*

*Figure 9. Employees working in MSMEs as share of total employees working in private sector companies of all size*

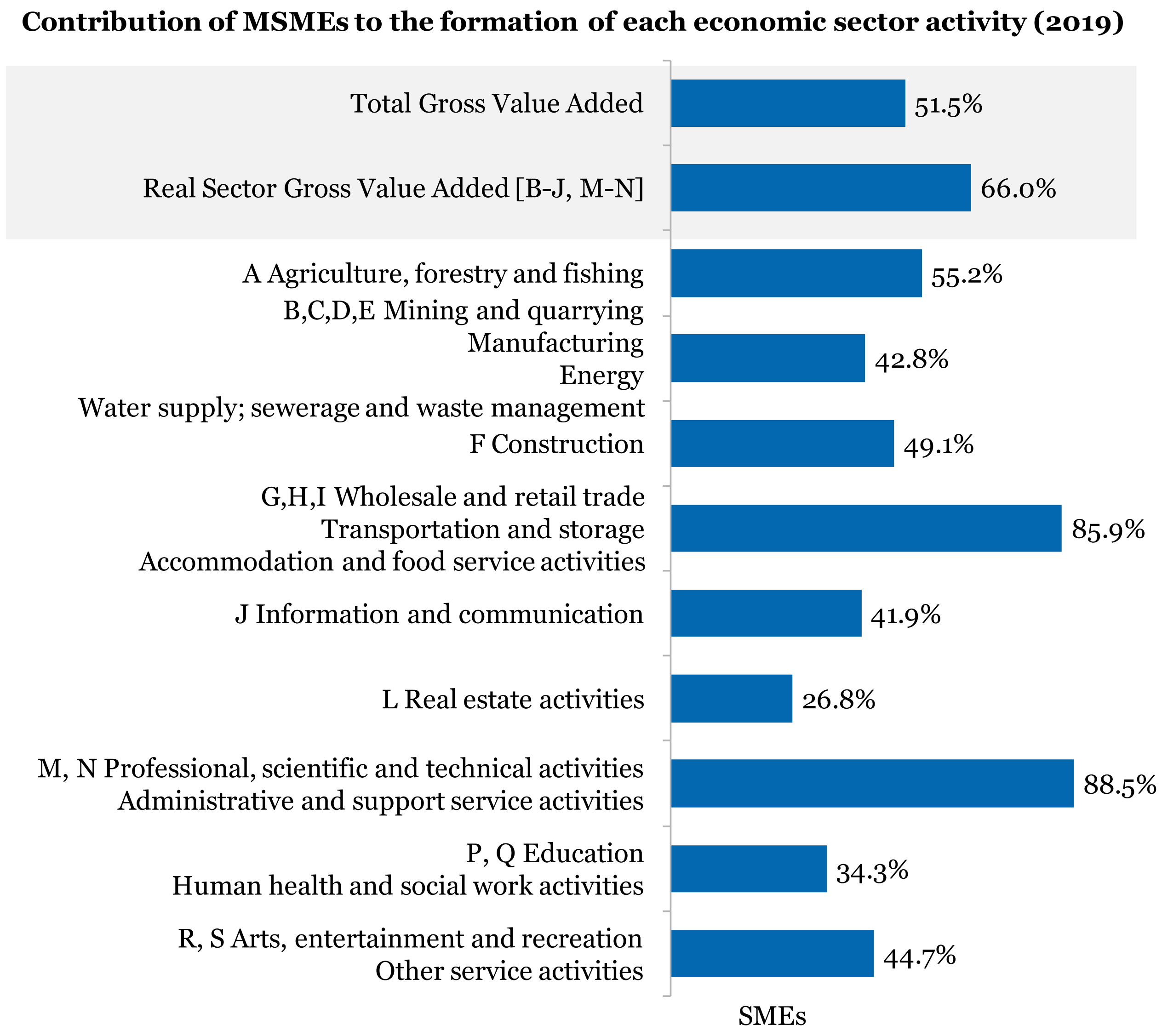



*Source: National Bureau of Statistics (BNS)*

From a geographic perspective, while 62.0% of all MSME business are registered in Chisinau, only 54.1% of MSMEs employees are in fact based there.

The relative importance of MSMEs to local economies can be brought into perspective with Figure 9, which shows that for several rayons, more than 95% of all local jobs (in some cases closer to 100%, for example Şoldăneşti) are created by MSMEs.

*Figure 10.Contribution of MSMEs to the formation of each economic sector activity in 2019*



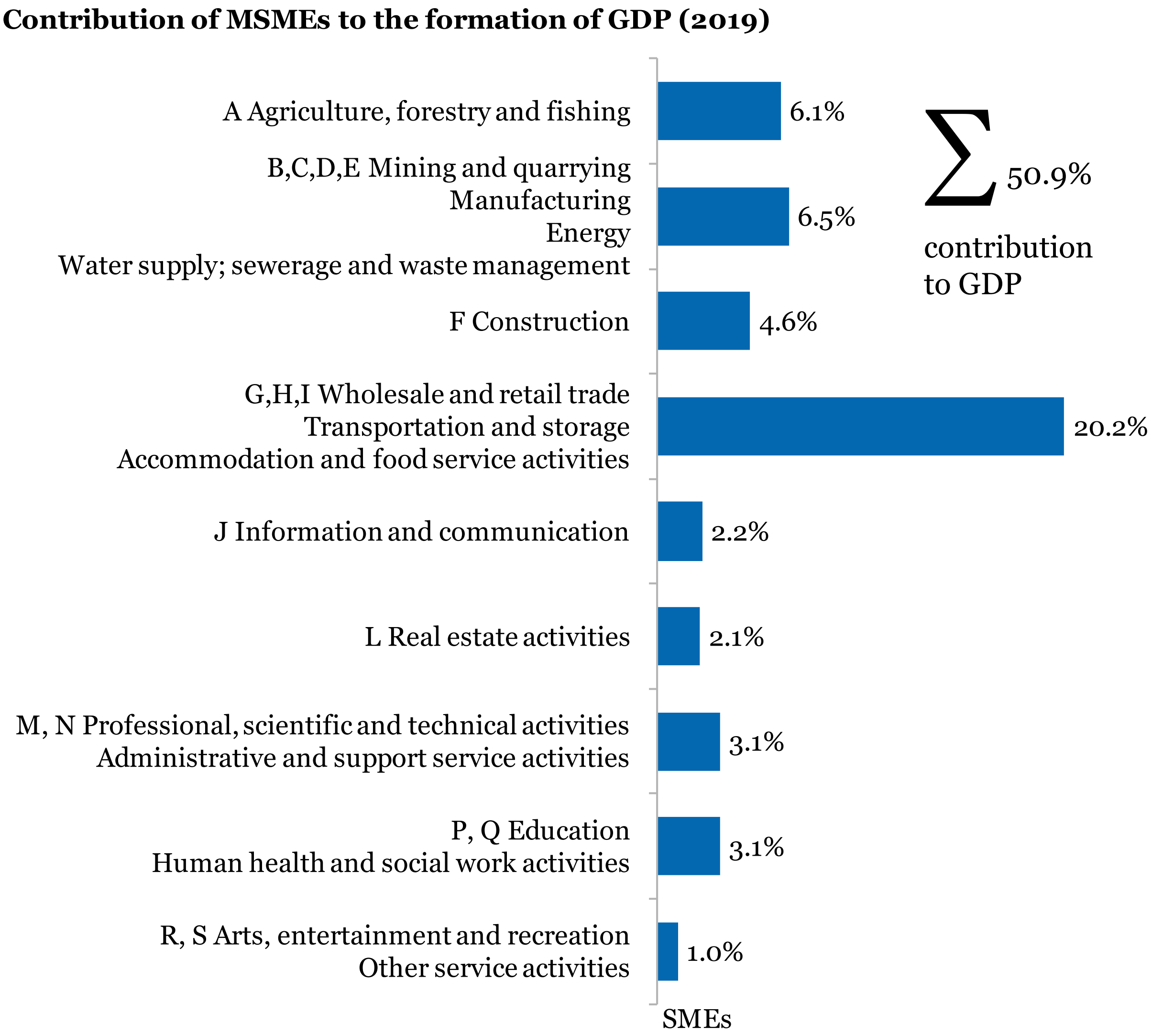

*Source: National Bureau of Statistics (BNS)*

Formal SMEs contributed up to 50.9% of national income (GDP) in the economy in 2019, as presented in Figure 10. Also, MSMEs generated 51.9% of all gross value added (GVA) in the economy, with the relative contribution of MSMEs to the specific sectoral activity being as high as 88.5% in professional and technical services and 85.9% in trade (Figure 11). Thus. micro, small and medium-size enterprises contribute yearly to the productivity problem.

The spread of small and medium sized enterprises across the country requests a dedicated strategy that prioritizes the needs of each company, what they want to achieve and in what time horizon, also given the circumstances in which they operate. More and more, in the world and in Eastern Europe, there is a proven try to unlock the growth potential and to increase the survival rates of the ecosystem of small and medium-size enterprises.

Micro, small and medium-size enterprises (MSMEs) in Moldova and in many countries need support in this postcrisis recovery. Specifically, in Moldova, MSMEs account for almost two-thirds of local employment and half of GDP (Figure 11) and adequate measures need to be taken to protect in the foreseeable future.

*Figure 11.Contribution of MSMEs to the formation of GDP in 2019*




*Source: National Bureau of Statistics (BNS)*

Main MSMEs contributors to the formation of GDP represent one of the hardest hit sectors by the pandemic. Based on our analysis, some industry sectors will be hit harder than others in the crisis and the recoverability will take longer due to long-term disruptions. These sectors, which include transportation and storage, accommodation and food service, health and education have an overrepresentation of MSMEs due to the local nature and barriers raised by the crisis.

Sizable impact on employment of MSMEs is one important dimension. The continuous ups and downs of demand for almost two years already can severely affect the ability of MSMEs to function optimally and further unemployment can follow.

*Table 3. SMEs impact on economies and job creation, 2020*

| Indicator | Majority of business | Private sector jobs | Value added |
|---|---|---|---|
| **European Union** | 99.9%[21] | 65.2%[22] | 53%[23] |
| **Moldova** | 98.6% | 60.1% | 50.9% |
| *Definition* | SMEs' share of total no. of companies | SMEs' share of private sector employees | SMEs' share of national GDP |

During 2020, the Government responded with measures to address the short-term survival. The implications on MSMEs are both on short-term challenges but also for long-term future growth. The immediate series of actions initiated to support MSMEs in 2020. Included:

- ODIMM: SME Digitisation Support Tool to support the digital transformation of SMEs (to support the transfer of technology and digital development of small and medium-sized enterprises to exploit their innovative potential, including facilitating their access to internal and external markets);

- Programme: 'Supporting SME with high growth and internalization potential', to provide grants covering up to 50% of costs to help selected SMEs with their business plans.

As of now, when pandemic slowly becomes endemic, there is a strong need to create initiatives that stimulate growth and heal for longer-term, in a landscape when there is a shortage between demand (still not a pre-crisis level) and the ending of the government stimulus. Helping MSMEs means also preparing them for the new normal of doing business. Having in mind the contribution to GDP, combined with adequate measure for small and medium-size enterprises could significantly boost economic growth, creating premises for Government to grasp this opportunity.

What does it mean for MSMEs to operate in a pandemic and post-pandemic context? The longer the uncertainties are dominating the markets, MSMEs are adding more unmet needs. For Moldovan SMEs, in a contracting economy (7% GDP contraction, please see Figure 1), the shock waves from COVID-19 are putting further pressure on small businesses, the contraction embedding already some of the pressures. In an economy dependent on a few industries, SMEs were forced to cut back on business spending, or they simply reduced the number of employees, for the first time since 2016.

Referring to the Transnistrian region, the reported number of SMEs in Transnistria is around 4,550 entities, or 17 entities per 1,000 inhabitants aged 15 or above[24]. This is a relatively low number when compared to 25 in right bank Moldova. However, similar to right bank Moldova, this number does not include self-employed persons and patent holders (around 22,000), though it still counts ca. 800 of larger private entrepreneurs (PEs) being on a special tax regime. Moreover, the Transnistrian SME definition does not include medium companies, which are reported together with large entities. Aside from the share of enterprises, it is difficult to estimate the role of SMEs in the TN economy due to the absence of relevant statistical information. Berlin Economics estimates that SMEs in a broader definition employ around 70% of all workers in the private sector, which amounts to ca. 52 thsd. people or 38% of total employment. Data on value added is not available, but it was estimated from existing statistics, that around 10% of total output is generated by micro and small companies. Based on shares in the EU statistics, Berlin Economics makes a rough estimate that medium enterprises contributing another 5%. Aside from the narrow definition, the low share of SMEs in input is most likely due to the high density of retail and

[21] European Commission - SME Performance Review, 2021 SME COUNTRY FACT SHEET, DocsRoom - European Commission (europa.eu),
[22] European Commission - SME Performance Review, 2021 SME COUNTRY FACT SHEET, DocsRoom - European Commission (europa.eu),
[23] European Commission - SME Performance Review, 2021 SME COUNTRY FACT SHEET, DocsRoom - European Commission (europa.eu),
[24] SME finance in Transnistria: Estimation of the financing gap and priorities for improving access, Berlin Economics

catering enterprises (47% of enterprises, EU average: 25%). Even though data availability is a problem, the perception is that the role of SMEs in the TN region is rather low when compared to other economies.

***Why MSMEs are more vulnerable?***

Irrespective the size, all companies have had to quickly adapt to the new certainty. What differentiate the MSMEs compared with larger companies is usually access to liquidities or lack of fast adaptability in supply and demand chain. The limited number of many SMEs can be translated in the fact that they have difficulty accessing capabilities and resources that would make them more productive or more numerous. Scarcity can be translated either in access to finance, or access to talented individuals that can dedicate all the attention to latest knowledge of technology and innovation.

Figures from the National Bureau of Statistics show that overall MSMEs have already experienced a contraction in sales, more than the large companies. In 2020, in case of MSMEs, the drop in sales revenues[25] was 4.6% year-on-year, while in case of large companies, the reduction was lower: 3.6%. It is not surprisingly, as a matter of fact, that the business disruptions affecting more the smaller businesses than the ones that are more stable and have a long-established track record.

In Moldova and in many emerging and developing economies, the productivity gap between large firms and MSMEs are especially large, due to a disproportionate concentration of employment in micro and small firms and lower employment in medium and large-sized companies.  Noteworthy, MSMEs are very diverse ranging from start-ups to micro-enterprises, going through middle size phases to fast-growing firms, ending with an aspirational well-established type of companies; these business models face different problems and therefore have different funding needs.

Consequently, the needs are not homogenous, and solutions should be designed based on different type of enterprise. There can be defined several sub-segments of companies:

*Table 4. Dominant need as a function of company size*

| | Subsegment | Areas of major need |
|---|---|---|
| 1 | Start-ups / Innovative or tech | Educational ecosystem and access to finance |
| 2 | Micro / family businesses | Affordable credit to grow business |
| 3 | Small local companies | Managerial, technological, and financial up-skilling |
| 4 | Medium size growing enterprises | Access to new markets, technology adoption |
| 5 | Stagnating or scaling down medium size enterprises | Operational efficiency, product redesign |

*Source: PwC analysis*

Broadly speaking, all hands should be on deck in the months to come, offering the right help to solve the dominant need. There are some common strategies that can trigger success, by addressing common needs: access to finance to ensure stability; access to new markets and customers to offer alternatives; engaged workforce to implement the strategy and a robust post-crisis clear roadmap.

Statistics reveal there is a gender gap in business ownership and entrepreneurial activity, however in the last decade there is a successful trend of overcoming gender stereotypes referring to “women in business”. According to the most recent report from 2017 “Analytical report reflecting women and men in entrepreneurship”, issued by National Bureau of Statistics, in partnership with UN Women, UNDP, Embassy of Sweden, women represent 33.9% of owners of companies.

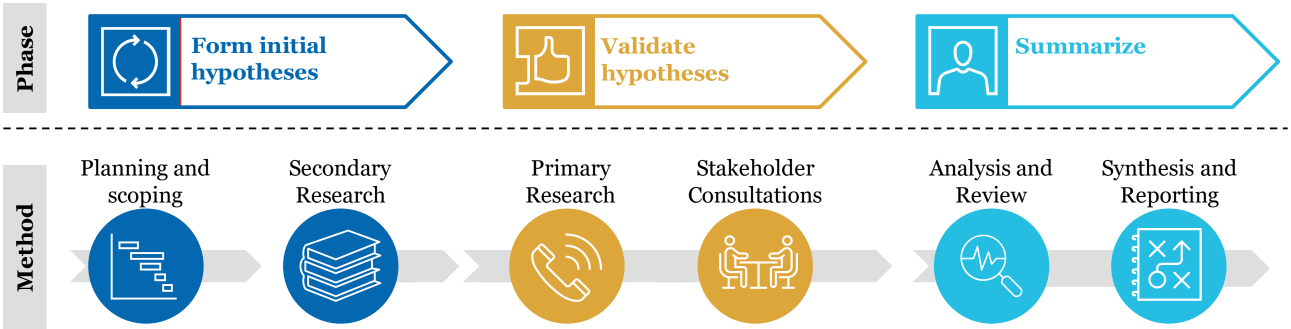
With a population with more than half being women, there is an untapped potential in women’s entrepreneurial skills that can covert to successful businesses.

[25] The National Bureau of Statistics – Business data, Administrative Data Sources

# 2 Methodology of study

PwC methodology for mapping the financing instruments and practices of MSMEs in Moldova is based on hypothesis development principles. The methodology aims for full validity and reliability by cross-analysing multiple independent sources of information before confirming a conclusion.

*Figure 12. Overview of study methodology*




*Source: PwC analysis*

The main phases of the project are presented in Figure 12 above, these being:

**I. Forming the initial hypotheses** – This phase featured the collection of desk research and collection of official statistics available. The main methods used during this phase were:

- *Planning and scoping* – this set of activities set the groundwork for the study, by mapping existing or prospective actions and analytical efforts, and defining the methodological framework to be used.
- *Secondary Data Research* – desk research and deep-dives into public sources of data concerning the current practices of funding and systematic review of main financing support available to MSMEs (including research on public and donor initiatives)

**II. Validating the hypotheses** – This phase included the generation of primary data and cross-validation of emerging themes with stakeholders.

- *Primary Data Research* – a collection of primary acquisition tools was employed including:
  a. a survey undertaken within a representative sample to cover the main aspects of MSMEs financing
  b. relevant discussions with experts and business associations
- *Consultations* – discussion of findings with all relevant stakeholders to a build consensus understanding of the financing practices and associated challenges of MSMEs, while clearly stating the assumptions, limitations, and information gaps. Consultations provided a forum for review and expansion of the policy guidelines

**III. Summarize** – The third phase included the bulk of the analytical effort needed to articulate the main conclusions of the study and elaboration of core policy proposals. The focus was on insight generation.

- *Analysis and review* – included summarization, consolidation, and analysis the data gathered throughout the previous phases in order to map clearly the practices of financing among MSMEs. Also, secondary data findings were re-evaluated in relation to the primary data acquired
- *Synthesis and reporting* – proposal of policy recommendations and the development of the final Access to Finance Report amended as resulted from consultations

## 2.1 Data collection approach

Secondary data collection involved **desk research** covering existing documentation of the financing instruments available to MSMEs. The objective was to collect existing information and analyse secondary statistical data from public records, press releases, reports and publications issued by national and European or international authorities. Our desk research team performed a thorough analysis of the reports publicly available and offered to us by various stakeholders, for the in scope economic sectors activities. The main risks for this approach refer to lack of, poor quality, insufficient level of detail and inconsistency of data.

The primary data collection approached relied on two main methods: interviews and consultations with relevant stakeholders and a business survey. This approach was preferred to ensure complementarity between first-hand quantitative data and qualitative data coming from key institutional vantage points.

**Interviews and consultations** took place with the relevant stakeholders, including both representatives of the public and of the private sector – both for profit and non-profit.

To assess the view of most relevant stakeholders regarding the financing instruments used by MSMEs in Moldova and learn about their potential initiatives or involvement concerning access to finance, individual interviews and discussions were organized via video conference. The stakeholders were organized into three groups: public sector institutions, business associations and civil society representatives, and development partners or donors. The list of targeted stakeholders is presented (Figure 13) below.

In addition, individual information requests were sent to various institutions – including commercial banks and public regulators. The requests were performed to try to ascertain market level indicators that are relevant for the financing of MSMEs (for example the bank loan rejection rates for MSMEs, or the weighted average rate of interest for different types of financing instruments granted).

*Figure 13. List of stakeholders interviewed*

**Public sector institutions**

- Ministry of Finance
- Ministry of Economy
- Agency for Development and Modernization of Agriculture
- Moldovan Investment Agency
- Moldova E-Government Agency
- National Bureau of Statistics
- ODIMM
- National Bank of Moldova
- PI "External Assistance Program Management Office" (former DLC)
- PM's Economic Council
- State Chancellery
- National Commission of Financial Markets (CNFP)
- Consolidated Unit for Monitoring and Implementation of Projects in Agriculture

**Business associations/ Civil society**

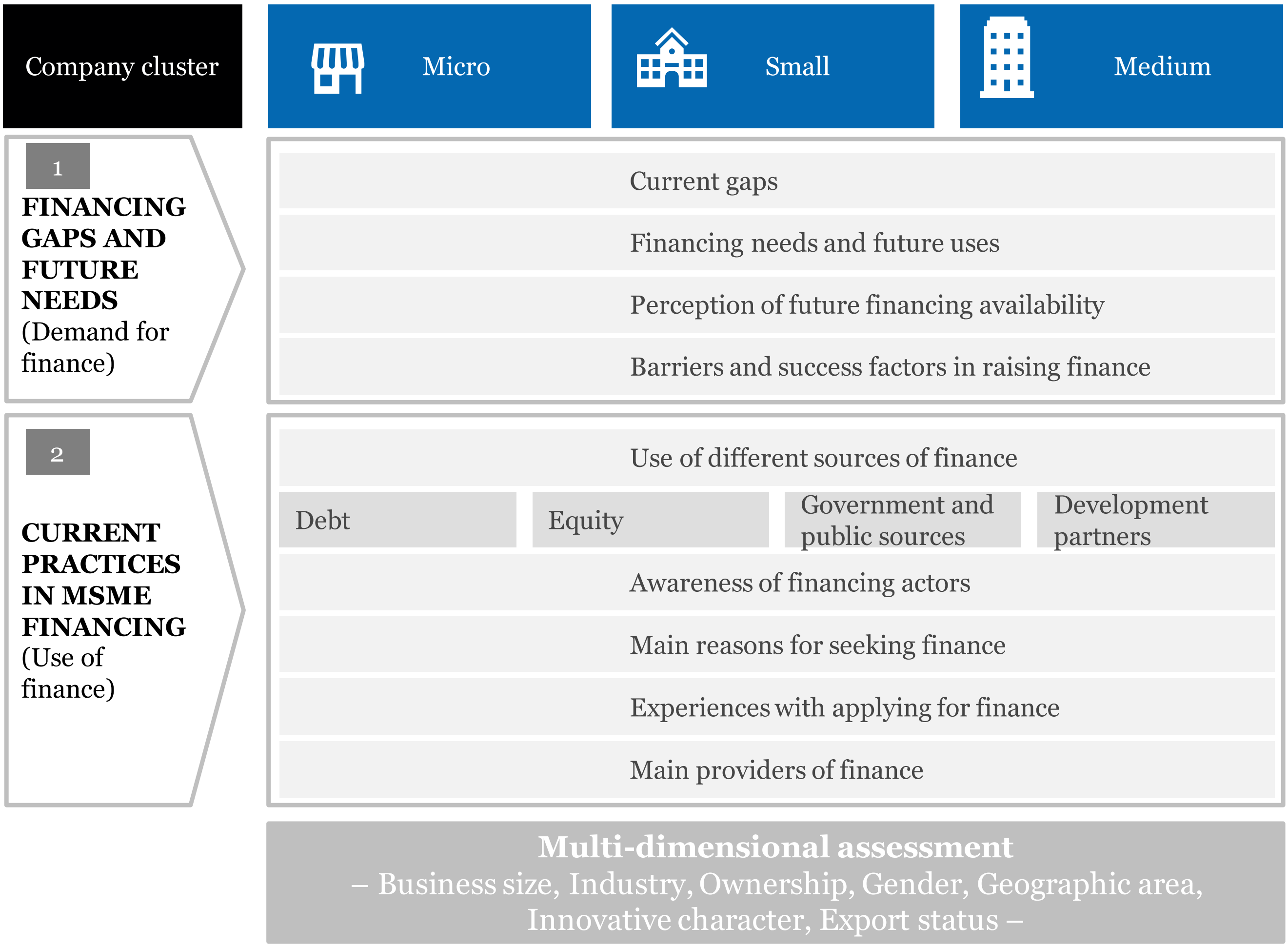
- American Chamber of Commerce
- European Business Association
- Small Businesses Alliance
- Chamber of Commerce and Industry
- Chamber of Commerce and Industry of Tiraspol (Transnistria)
- National Confederation of Employers of Moldova
- Moldovan Association of ICT companies (ATIC)

**Development partners/donors**

- Worldbank
- IMF
- USAID
- EBRD
- EIB
- FAO
- German Embassy
- Swedish Embassy
- Swiss Development Cooperation
- UK Embassy
- Czech Embassy
- Polish Aid/Solidarity Fund
- Embassy of the Netherlands

*Source: PwC methodology*

*Figure 14. Analysis framework of PwC survey data*




*Source: PwC methodology*

**The business survey** was the second method used for primary data acquisition. The analytical framework behind the survey is presented in Figure 14. The survey aims to build a complete understanding of the financing decisions of MSMEs. To this end, two sections are structured:

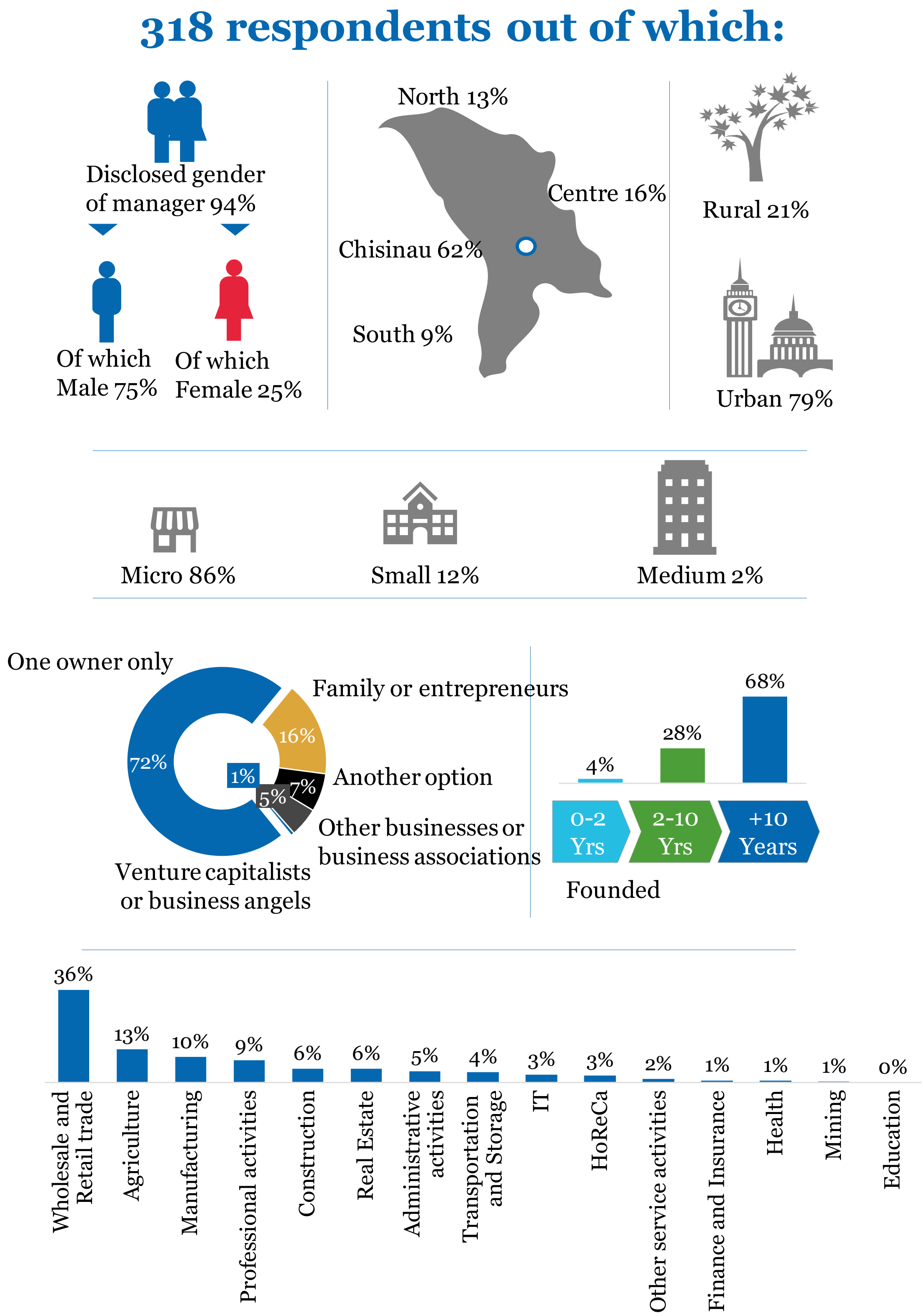
1. **The financing gaps and future needs** – in other words the demand for finance. The financing needs are addressed from a gap perspective, as well as the perspectives on future finance availability and the strength of the current economic climate in general. Barriers to raising finance are also discussed.

2. **The current practices in MSMEs financing** – in other words the use of finance. Drivers include awareness of financing actors and familiarity with different types of financing instruments, the main reasons for seeking finance, as well as experiences with applying for finance, and willingness to consider alternative providers of finance.

In addition to company size, company attributes are taken into account through multiple dimensions, including: the industry or sector of operation, the ownership structure, the age of the enterprise, the gender of the main owner, the geographic area of operation (urban or rural), whether the company works towards creating innovations or not, whether the company is an exporter or not, the level of indebtedness, the

The survey was conducted during 27th of October and 3rd of December 2021 and was answered by 318 respondents in Moldova across all MSME size spectrum and industry. The profile of survey respondents is presented in Figure 15 below.

*Figure 15. Profile of respondents participating in PwC survey*



## 2.2 Estimation of the financing gap

A macro-econometric model was designed to estimate the MSME finance gap in Moldova on a sample of 14 countries (Albania, Bosnia and Herzegovina, Hungary, Latvia, Mongolia, North Macedonia, Poland, Romania, Russia, Serbia, Slovakia, Turkey, Ukraine) using annual data since 2016 of 17 macroeconomic time series. Number of ATMs per 1,000 km2, outstanding deposits with commercial banks (% of GDP), number of insurance corporations per 100,000 adults, general government net lending/borrowing as % GDP, current account balance as % of GDP and total investment as % of GDP.

# 3 Review of instruments and highlights of MSME financing

## 3.1 Overview of good practices in the use of SME financing instruments

MSMEs financing instruments could be divided on several characteristics: (i) nature of financing: traditional or alternative; (ii) necessity of extra-funds: reimbursable, grants or mixed financing; (iii) origin of funding sources: internal or external.

Speaking about **traditional financial instruments for MSMEs**, that could be divided into two main categories: (i) non-institutional financial instruments, such as own savings, loans from friends and family, and (ii) institutional financial instruments based on asset-based lending such as loans from financial institutions (banks, non-bank financial institutions, other related entities). Asset-based finance is one of the most common forms of financing for MSMEs. It involves the borrower's asset as collateral in loaning money by financial institutions and unlocking needed capital through it.

**Alternative financial instruments for MSMEs** refers to debt instruments such as other asset-based finance instruments (factoring, leasing, purchase order finance) and debt instruments such as corporate bonds, securitized Debt, and crowdlending/P2P lending and others. Also, this category comprises equity instruments such as private equity, venture capital, business angels, SME-focused stock exchanges, equity crowdfunding, specialized public-private equity funds and "hybrid instruments" such as convertible bonds, profit participation rights. Financial government benefits for MSMEs is also considered as alternative financial instruments such as partial credit guarantee schemes, credit/equity lines to financial Institutions. The list of financing instruments has been recently supplement by Innovative and Technology-based Solutions (FinTech) and Blockchain-based financing such as Initial Coin Offerings (ICOs)

Alternative financing instruments (discussed in this section) may involve both local and international investors/funds. However, unlike traditional instruments, alternative instruments can, for instance, supply growth capital to businesses by incorporating elements of debt (e.g., bank lending instruments) and equity (e.g. venture capital instruments) in a single investment vehicle. This allows alternative financing techniques to provide a different risk–reward structure that enables an investor to accept higher/lower risk in exchange for a higher/lower return. Therefore, hybrid techniques have the capacity to produce a better alignment of the interests of both the firms and investors (e.g., capital market actors)[26].

### 3.1.1 Debt instruments

**Asset-based finance instruments**

*Factoring*

Factoring is an important source of working capital finance for SMEs, particularly in those jurisdictions where the financial infrastructure is deficient[27]. Factoring implies purchase by the lender of a firm's accounts receivables at a discount and, in the case of non-recourse provisions, the collection of invoices directly from the parties that owe money. Factoring addresses the issue of SME opacity by focusing on the quality of the obligor; in effect, a risky supplier can transfer its credit risk to that of a higher quality buyer. In recent years, 'reverse factoring' or 'supply-chain financing', has become a fashionable financial instrument. With reverse factoring, the financial institution purchases receivables only from high credit quality buyers rather than a portfolio of all buyers of

[26] Cusmano, L. and Thompson, J. (2018). Alternative Financing Instruments for SMEs and Entrepreneurs: The Case of Mezzanine Finance. OECD SME and Entrepreneurship Papers, n° 2, Éditions OCDE, Paris. https://doi.org/10.1787/3709429e-en

[27] IFC (2011). SME Finance Policy Guide. International Finance Corporation. https://www.ifc.org/wps/wcm/connect/dd44ba10-4469-4054-ac68-5deec1a335ac/G20_Policy_Report.pdf?MOD=AJPERESandCVID=jkWST-A

particular sellers, which leads to the delivery of low-risk loans to high-risk suppliers (e.g., MSMEs). Like traditional forms of commercial lending, factoring offers SMEs with working capital financing[28].

Factors base their lending decisions primarily on the quality of accounts receivable, rather than on the creditworthiness of the firm. For this reason, factoring is an especially appropriate source of finance for firms that find it hard to access funding from banks or whose creditworthiness is difficult or expensive to assess. This is the case for SMEs that have an opaque or high-risk business model, rely heavily on intangible assets that are highly collateralized or are relatively young and therefore have no proven track record. Given that the ownership of the underlying asset is transferred to the factor, the instrument can be of relevance in countries with weak creditor rights and/or an inefficient judicial system[29].

*Leasing*

Lease financing is a type of asset-based financing, and a popular alternative to traditional (cash-flow based) debt, whereby an asset is made available to an enterprise or individual for a certain period, in exchange for payment[30]. According to the international accounting standard for leases IAS17, a lease is defined as "an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time". In lease contracts, the legal ownership of the asset is effectively dissociated from the economic ownership of the asset, and the lessee may have the option to acquire the asset at the end of the lease period, depending on the contract. Contracts that specifically provide for such transfer of ownership at the end of the contract are known as ‘hire-purchase’ contracts[31].

The OECD report also emphasize on the benefits of lease financing for MSMEs Leasing allows firms to invest in fixed assets without necessarily having the liquidity required to purchase such assets, the down-payment or collateral, or the credit rating required by banks to receive a loan. Through leasing, they can finance up to 100% of the purchase price of an asset, basing repayment instalments on the cash flow and profitability generated using this asset. This can also enable them to increase their debt capacity and better manage working capital, given that payments are spread over the lifetime of the asset. In addition, leasing can increase MSME resilience, making them less vulnerable to downturns in the credit cycle, when the supply of traditional loans may be more limited.

*Purchase Order Finance*

Purchase Order Finance (POF) is, according to Megersa, K. (2020), a highly targeted version of asset-based finance, designed to enable a firm to fill a particular customer order. Therefore, it enables firms to seize market opportunities that would be lost due lack of financial resources, e.g., to buy inputs and deliver the output. POF finances the production stage of an MSME’s activities, e.g., through a working capital advance to cover part of the production of goods or services demanded by one or more specified customers. Through POF, the MSME obtains a verified purchase order from a customer and estimates the direct costs needed to produce and to deliver the product, which might include labour, raw materials, packaging, shipping, and insurance. The purchase order is presented to a financier, which bases the credit decision on (i) whether the order is from a creditworthy customer or (ii) is backed by an irrevocable letter of credit from a dependable bank and on (iii) whether the MSME can produce and deliver the product according to the terms of the contract. When the financier collects payment, POF deducts the amount advanced and interest or fees, and remits the balance to the MSMEs[32]. Just like factoring, POF enables MSMEs to transfer the credit risk to a more creditworthy customer, which is often a bigger company or a government agency. However, the advance rate is usually lower than in the case of factoring, as POF implies higher costs and risks for the financier.

[28] Megersa, K. (2020). Improving SMEs’ Access to Finance Through Capital Markets and Innovative Financing Instruments: Some Evidence from Developing Countries. K4D Helpdesk Report 733. Brighton, UK: Institute of Development Studies
[29] Allotti V., Bianchi M., Thomadakis A. (2021). How (more) equity financing for SMEs can become reality. ECMI Event Report. European Capital Market Institute, https://www.ecmi.eu/publications/event-reports/how-more-equity-financing-smes-can-become-reality
[30] Leaseurope and Oxford Economics (n.d.), “The use of leasing amongst European SMEs”, 2015, http://www.leaseurope.org/uploads/documents/SMEs/Leaseurope%20SME%20Report%202015%20Key%20Findings.pdf
[31] OECD (2020), Alternative Financing Instruments for ASEAN SMEs, www.oecd.org/finance/alternativefinancing-instruments-for-ASEAN-SMEs.htm
[32] OECD (2015), “New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments”, OECD, p. 119, https://www.oecd.org/cfe/smes/New-ApproachesSME-full-report.pdf

### Corporate bonds

Corporate bond is a type of debt security that is issued by a firm and sold to investors. The company gets the capital it needs and in return the investor is paid a pre-established number of interest payments at either a fixed or variable interest rate. When the bond expires, or "reaches maturity," the payments cease, and the original investment is returned. The backing for the bond is generally the ability of the company to repay, which depends on its prospects for future revenues and profitability. In some cases, the company's physical assets may be used as collateral. These bonds may also actively trade on the secondary market. Corporate bonds are typically seen as somewhat riskier than government bonds, so they usually have higher interest rates to compensate for this additional risk.

The difference between corporate bonds and stocks is that an investor who buys a corporate bond is lending money to the company while an investor who buys stock is buying an ownership share of the company. The value of a stock rises and falls, and the investor's stake rises or falls with it. The investor may make money by selling the stock when it reaches a higher price, or by collecting dividends paid by the company, or both. By investing in bonds, an investor is paid in interest rather than profits. An additional important difference is that even a bankrupt company must pay its bondholders and other creditors first. Stock owners may be reimbursed for their losses only after all those debts are paid in full.

There are different types of corporate bonds based on the risk levels, yields and payment schedules (fixed-rate coupons, investment grade vs. non-investment grade (high yield), zero-coupon, callable, and puttable, step-up, step-down, floating-rate, variable- and adjustable-rate)[33].

### Securitized Debt

Securitized debt instruments are financial securities that are created by securitizing individual loans (debt) (Alotti, 2021). The owner of the securities receives an income from the underlying assets; hence, the term asset-backed securities. Securitized debt instruments come with various advantages over conventional forms of investing and are more valuable to a portfolio. One of the most common types of securitized debt is mortgage-backed securities. Securitized debts can lower interest rates and free up capital for the bank, but they can also encourage lending for reasons other than making a profit.

One of the main advantages of securitized debt instruments is that they allow banks to offer bonds at different levels of risk. The bonds can be divided into risk tranches where one class of the bonds receives less money but will not suffer any consequences should the homeowner default on the loan payments. In addition, a second bond class will receive a higher payment but will face a loss in the case of foreclosure of the home. The different bond class offerings allow investors to choose the level of risk they want to invest in (mortgage-backed securities, asset-backed Securities and so on).

### Crowdlending/ P2P lending for MSMEs

Lending-based crowdfunding for MSMEs is also commonly referred to as peer-to-peer lending or P2P lending. This is a fundraising model where many persons lend sums of money to a company and in return receive the company’s legally binding commitment to repay the loan at pre-determined time intervals and interest rates (OECD (2015)). Lending-based crowdfunding, or P2P lending, is conducted through an online platform facilitated by FinTech. Funders can be retail savers or institutional investors wishing to invest in MSME risk. P2P lending does not necessarily need to be a competing model to bank credit. Instead, it can be complementary to conventional banking, as banks develop their own platforms of cooperate with established platform operators by funding them, depending on the model.

Benefits of crowdlending/ P2P lending presents several benefits to all participants. P2P lending has the potential to reduce the gap in MSME financing that cannot be fulfilled by banks. It eases access to debt financing for borrowers who are unbanked; have limited credit history or no credit rating; and limited collateral to post against a bank loan. P2P lending competes with banks also in terms of speed, as loans are processed faster through online platforms given the use of advanced technology at all stages of the credit allocation process (from KYC checks and application processing to loan disbursement). Debt crowdfunding supports community participation in the

[33] https://www.fidelity.com/fixed-income-bonds/individual-bonds/corporate-bonds/overview

development of start-ups and small businesses and provides an excellent platform for MSMEs to create a community of early adopters of their products or services and allows the company to indirectly market its product/service to many individuals/retail investors. At the same time, it offers higher returns to lenders of funds who may not be able to hold MSME risk through other financial products, particularly so for retail investors. P2P lending platforms in their majority offer low transaction fees to both investors and borrowers given their lower cost base compared to conventional credit institutions. Lower transaction costs increase the feasibility of very small loans/ microloans. New methods and technologies employed by online platforms for the assessment of the borrowers' creditworthiness is another disruptive innovation when compared to bank lending. The use of big data and other alternative data sources for credit scoring has the potential to reduce information asymmetries and provide more effective credit scoring. The cost of information acquisition is also decreasing, and the handling/analysis of such information is enabled by innovative technologies.

### 3.1.2 Equity instruments

Equity finance can be a good financing instrument for MSMEs in their early lifecycle stages, i.e., when their cash flow is not yet regular. For these businesses, bank debt is usually not accessible. Nevertheless, even well-established, and successful MSMEs face several difficulties when trying to access local or international capital markets. The cost of raising capital is often significantly higher for MSMEs, not just because of the apparent greater risk linked to investing in such businesses, but also due to the smaller relative amounts of financing that SMEs need (Megersa, K. (2020)).

Equity financing offers an important alternative for growth-oriented SMEs to raise capital, given that these firms tend to depend on more difficult-to-value intangible assets. The development of small IPO markets could incentivize investment in MSMEs and, alongside securitization and other non-bank debt financing instruments, could improve the allocation of risk and risk taking, thus supporting growth[34]. Despite these benefits, EU public markets for MSMEs are struggling to attract new issuers. The number of IPOs on MSME-dedicated markets, the so-called junior stock markets, declined significantly in the wake of the global financial crisis, and has not picked up since.

**Private Equity**

According to Megersa, K. (2020), equity funds are pooled investment instruments that invest in unlisted equity, quasi equity and, sometimes, debt securities. There has been a rise in the involvement of SME equity funds in emerging markets in recent years. Over the last decade, Development Finance Institutions have expanded their participation in MSME equity funds, and evidence suggests that there are hundreds of investment funds supporting small and growing businesses in emerging markets. In general, market opportunities (deal flow and exit) in most of the smaller emerging countries are too limited to support dedicated single-country funds. Consequently, successful SME fund models typically cover more than one country, with a small central team and local management teams in each country.

**Venture Capital**

A Venue Capital usually comprises of private equity investments usually in young firms that exhibit potential for high growth. Such firms need funds to pursue their initial growth targets[35].

Before going further, it is important to mention that the distinction between a Private Equity and a Venture Capital firm is mainly based on the size of their investments, the size of the companies they invest in, and the stage of the business lifecycle that this company is currently in. According to the traditional divide, Venture Capital investment is deployed to young start-ups and MSMEs in their initial phases of development (pre-launch, launch, and early-stage development), in exchange for an equity stake in that company. Companies receiving Venture Capital investment may not have recorded profits at the time of the investment, have untested models, limited track record but high growth potential. Private Equity financing, on the other side, is invested in more

[34] Allotti V., Bianchi M., Thomadakis A. (2021). How (more) equity financing for SMEs can become reality. ECMI Event Report. European Capital Market Institute, https://www.ecmi.eu/publications/event-reports/how-more-equity-financing-smes-can-become-reality
[35] Berger, A. N., and Schaeck, K. (2011). Small and medium-sized enterprises, bank relationship strength, and the use of venture capital. Journal of Money, Credit and banking, 43(2-3), 461-490. https://doi.org/10.1111/j.1538-4616.2010.00381.x

mature companies and may involve in many cases the acquisition of the entirety of the company, as in the case of Leveraged Buyouts (LBOs) where the acquisition is financed entirely through leverage. However, it is important to note that VC is not used exclusively for early stage and start-ups funding.

**Business Angels**

A business angel is a private individual, often with a high net-worth, and usually with business experience, who directly invests part of their assets in new and growing private businesses. Business angels can invest individually or as part of a syndicate where one angel typically takes the lead role[36]. Besides capital, angel investors provide business management experience, skillset, and contacts for the entrepreneur. Experienced angels also know that they may have to wait for a return on their investment. They can, therefore, be a good source of 'smart and patient' capital.

Business angels play an important role in the economy. In many countries, they constitute the second-largest source of external funding in newly established ventures, after family and friends. They are increasingly important as providers of risk capital and contributors to economic growth and technological advances. They typically invest locally, and the level, sophistication and dynamics of their investment varies greatly across regions in the same country and across countries. There are some regional gender sensitive initiatives, such as The European community of women business angels and women entrepreneurs, which is a funded by the European Parliament initiative, that aims to support women entrepreneurs in accessing alternative sources of funding.

**SME-focused stock exchanges**

According to Megersa, K. (2020), SME-focused stock exchanges have surfaced as an important option for MSME fundraising. They have been set up with the objective of allowing MSMEs to obtain public equity capital. The main feature of such venues is that listing conditions have been relaxed. This may bring lower issuance costs for MSMEs. But in contrast to large enterprises, they often face certain difficulties in raising funds via stock exchange. Largely, this involves high transaction costs, listing requirements and often very complex legal and regulatory frameworks. Also, MSMEs face greater obstacles and costs to raise capital from equity markets than larger issuers due to the lack of visibility of SME markets, the lack of market liquidity for SME shares and the high costs of an initial public offering.

**Equity crowdfunding**

In the case of equity crowdfunding, investors receive dividends from the investees' profits and/or the possibility to sell the equity at a higher price. Before the campaign goes online, both the firm and the platform must agree on the valuation of the firm and on the amount of equity to be raised. Existing regulations usually require platforms to submit an appropriate amount of information to be shared, to allow investors to make informed decisions (OECD, (2015)). Nevertheless, accounting standards for interested firms are not as strict as for public companies. Profile of firms Equity crowdfunding can complement or substitute seed financing for entrepreneurial ventures and start-ups that have difficulties in raising capital from traditional sources, like bank loans, venture capital, business angels or public programs, because they are too innovative, too complex, or too risky. Traditionally, equity crowdfunding has been limited to businesses with limited funding needs. Increasingly and especially in relatively developed markets, larger amounts of money can be raised thanks to these platforms as they become more widespread among retail investors and, crucially, among "sophisticated" investors and even institutional investors.

**Specialized public-private equity funds (EPEF)**

An urgent need for liquidity by the corporate sector, during the Covid pandemic, which was heavily affected by the disruption of production and the large decline in demand, on the one hand and the early and uncoordinated responses offered by member states – mostly based on direct financial assistance – resulted in an alarming rise in corporate leverage, to the point of heightening firms' default risk, on the other hand, lead a group of academics suggested the creation of a European Pandemic Equity Fund (EPEF) (Allotti, 2021). According to the proposal, the EPEF will offer cash to firms in exchange for a temporary increase in the corporate profit tax rate once the

[36] https://ec.europa.eu/growth/access-finance-smes/policy-areas/business-angels_ro

crisis has receded. The additional tax income raised in this way will be channelled back to the Fund in the future, representing its return on investment according to the following scheme: it trades an initial cash injection by the EPEF into the firm against a proportionate participation in future gross earnings ('value added') or net earnings ('profits'). The former can be implemented by upwardly adjusting the firm's value-added tax (VAT) remittances, while the latter relies on a tax surcharge, conditional on corporate tax payments. Under EPEF, the cash flows emanating from firms are like those associated with an equity stake in that firm. For example, an investor hands over cash to the firm in the initial year, and every year thereafter (assuming the firm is profitable) a defined share of the profits flows back to the investor. In the case of a loss, the investor shares in the losses. The 'cash-against surcharge' contract makes its performance dependent on the firm's success and renders the scheme equity-like, without being equity in a strictly legal sense of the term. The advantage of financing through an equity-like instrument is twofold. First, it does not increase corporate leverage; second, it does not challenge the current ownership structure or the corporate governance of the firm – as is the case, for example, for private equity investment.

### 3.1.3 Hybrid instruments

**Convertible Bond**

A convertible bond is a fixed-income corporate debt security that yields interest payments but can be converted into a predetermined number of common stock or equity shares. The conversion from the bond to stock can be done at certain times during the bond's life and is usually at the discretion of the bondholder[37]. As a hybrid security, the price of a convertible bond is especially sensitive to changes in interest rates, the price of the underlying stock, and the issuer's credit rating.

Convertible bonds are a flexible financing option for companies. A convertible bond offers investors a type of hybrid security, which has features of a bond such as interest payments while also providing the opportunity of owning the stock. This bond's conversion ratio determines how many shares of stock you can get from converting one bond. For example, a 5:1 ratio means that one bond would convert to five shares of common stock. The conversion price is the price per share at which a convertible security, such as corporate bonds or preferred shares, can be converted into common stock. The conversion price is set when the conversion ratio is decided for a convertible security.

**Subordinated bond**

A subordinated bond is a bond which in case of a debtor's bankruptcy is paid after the payment of other higher priority bonds, the so-called senior unsubordinated bonds. Subordinated bonds are unsecured and therefore riskier than older ones. If a company starts a bankruptcy procedure, defaults occur on all of its obligations. The bankruptcy court assigns the company's debts according to the priority of payments and requires the company to pay off existing debt according to the available assets. First, payments are due to holders of preferred shares, then payments will be made for senior unsubordinated bonds and tax arrears. Then come payments on subordinated bonds if funds remain for this. Holders of ordinary shares receive payments last.

From the perspective of the issuer, the structure of subordinated bonds is well defined and harmonized under the new regulations Basel III (for banks) and Solvency II (for insurers). Another type of subordinated securities is the so-called Contingent Convertibles, which could be converted into equity in case of a certain event. The analogue of these bonds for insurance companies are RT1 bonds issued to meet capital requirements under Solvency II. Conditional convertible bonds most often can be redeemed after a certain number of years at par, or the coupon will be refixed for a future period.

The corporate sector, on the other hand is exempt from compulsory compliance with these rules, its securities are classified as hybrid. Nevertheless, corporate hybrid securities follow the criteria of the rating agencies, and they are a relatively homogeneous asset type. According to the rating agencies' methodology, hybrid securities are partially considered as equity when calculating the credit rating; accordingly, the purpose of issuing hybrid

[37] https://www.investopedia.com/terms/c/corporatebond.asp

securities is to improve their credit rating, reduce costs and diversify financing, and refinance existing hybrid issues.

**Subordinated Debt**

Subordinated debt is an unsecured borrowing. If the issuing bank were liquidated, its subordinated debt would be paid only after its other debt obligations (including deposit obligations) are paid in full but before any payment to its stockholders. Banks issue subordinated debt for various reasons, including shoring up capital, funding investments in technology, acquisitions, or other opportunities, and replacing higher-cost capital. In the current low interest rate environment, subordinated debt can be relatively inexpensive capital. Publicly traded banks whose stock prices are depressed due to COVID-19 may find subordinated debt an especially efficient alternative to raising capital by issuing stock. Unlike equity, subordinated debt does not dilute existing stockholders or confer voting or control rights on investors. Unlike traditional debt, it does not contain onerous financial or operating covenants. Interest payments on subordinated debt are tax deductible by the issuer[38].

### 3.1.4 Financial government benefits for SMEs

Financial benefits that government can provide to support MSMEs. The latter are often the recipients of preferential tax policies. This is justified by the fact that benefits can provide an incentive to grow, innovate and can offset the high costs to MSMEs of tax compliance and administration. Tax incentives can take many different forms such as: tax holidays, R&D incentives, VAT exemption, tax relief for investments in SMEs, cost of tax compliance and administration and so on (OECD, (2015)).

**Tax Holidays**

Tax Holidays occur when companies are given a certain amount of time during which they do not have to pay tax or pay reduced taxes. These are particularly relevant for small SMEs in their start-up phase. However, there is much criticism of tax holidays particularly in developing countries. The system can provide an incentive for MSME owners to cease the operation of a business just before the tax holiday reaches an end to subsequently re-establish under a new name. The implications for tax revenue generation can also be significant and avoiding open-ended tax holidays that erode the tax base indefinitely is essential. A tax holiday scheme is also not appropriate for highly profitable start-up MSMEs, and this problem can be avoided by establishing a ceiling for the tax holiday scheme.

**Research and Development (R&D) incentives**

Promoting Research and Development (R&D) and investment in capital assets is a generally more efficient alternative to tax holidays. R&D and capital investment can have considerable impact on an MSME's productivity, invention and innovation, and therefore such incentives will ultimately improve economic performance and increase wealth. In addition to this, the ideal level of R&D in society is usually higher than the levels invested by the private sector alone. This is because private investors cannot keep all the benefits that their R&D generates although they bear the full cost. Tax incentives can help raise the amount spent on R&D towards the desired level. It is important to remember, however, that in countries where the capacity for carrying out R&D activities is limited by human capital constraints, the case for such tax incentives is less compelling, and other measures (such as incentives for technology transfers) may be better suited to boost productivity.

**VAT Exemption**

Many governments set a sales threshold below which MSMEs are exempt from paying value added tax (VAT). Raising these exemption thresholds can reduce the tax burden for MSMEs and allow them to invest the money saved in business growth. Thresholds vary widely as the UK gives a comparatively lenient example whereas Denmark is at the other end of the spectrum. In Mexico, Sweden and Spain there is no threshold at all.

[38] https://www.klgates.com/subordinated-debt-an-effective-tool-for-financing-growth-07-17-2020

**Tax relief for investments in MSMEs**

Tax relief for investments in MSMEs encourages individuals and companies to invest in small and growing businesses by effectively subsidizing the risk they are taking. This form of investment (whether direct or through venture capital or equity funds) can provide valuable support to businesses seeking finance to develop and grow. As part of these schemes, investors can deduct from their taxable income part of the cost of investment in certain types of companies or venture capital funds. In some countries, like the UK, investors are given income tax relief when they purchase new shares in qualifying companies, they are also charged capital gains tax at a lower rate and allowed to offset any losses on the sale of shares against income tax. Examples of these schemes include the Seed Enterprise Investment Scheme, Enterprise Investment Scheme and Venture Capital Trust Scheme in the UK.

### 3.1.5 Special financing schemes

**Partial Credit Guarantee Schemes**

According to Nathan Associates London Ltd. Study[39], a partial credit guarantee (PCG) fund is a risk transfer and risk diversification mechanism. It lowers the risk to the lender by guaranteeing repayment of part of the loan in the event of default. A PCG fund can help diversify risk by guaranteeing loans across different sectors or geographic areas. Partial (and full) credit guarantee funds have existed at least since the beginning of the 20th century and have become more popular over the past decades. PCG schemes feature prominently among donor interventions. While they also exist on a purely private basis (and increasingly public/private schemes are becoming more common), governments and donors have been aggressively pushing for their establishment to overcome the limited access to bank credit SMEs face. These schemes have been put in place with or without supporting technical assistance. By providing a guarantee, such a scheme can help overcome the lack of collateral of most SMEs (and thus the issue of risk) and compensate for low profit margins due to the high cost of lending to the SME sector, as well as produce additionality. The funding of PCG schemes can also be motivated by resolving coordination failures between private-sector entities, which prevents them from pooling their resources to operate their own schemes effectively.

According to Megersa, K. (2020), the core objective of credit guarantee schemes is to 'guarantee' the loans provided by a financial institution to a borrower subject to both the payment of a premium and a variety of other rules and conditions. When default happens, the lender is compensated by the guarantor as per the initial agreement. Credit guarantee schemes are one of the most market friendly kinds of interventions thanks to the fact that private financial institutions usually retain a primary role in the screening of borrowers and final lending decisions. Contrary to other types of interventions, such as state banks or directed lending arrangements, they may create fewer distortions in the credit market and may lead to better credit allocation outcomes. They may also produce positive externalities by stimulating banks to get into the SME market and improving their lending and risk management systems.

**Credit/Equity Lines to Financial Institutions**

Credit / Equity Lines refers to the provision of financing to banks and non-bank financial institutions, to increase the amount of finance available to SMEs. According to Nathan Associates London Ltd. study, providing credit or equity lines to financial institutions in developing countries is particularly favoured by both bi- and multilateral development finance institutions. In addition to this, loan or equity funds can be managed by the private sector, governments or donors directly. The largest funds receive support from multiple donors and can invest in many finance institutions regionally or even globally. Financial support is often complemented by technical assistance, which can lead to increased capacity in SME banking and can contribute to both a quantitative increase in the FI's business with MSMEs as well as a qualitative improvement of the FI's product offering (i.e. more accessible and/or longer-term credit).

**Loan and Grant Funding to Support MSMEs**

[39] Hamilton, K., Beck, T. (2016). SME Financing – How To. Topic Guide. Nathan Associates London Ltd. - EPS-PEAKS

According to Hamilton, K., Beck, T. (2016), there is often a grant element to donor and DFI funding. Grants can be financial, for example where funds are supplied at below market rates or with a repayment holiday, or can be 'in-kind', through the provision of TA. In addition, specific grant mechanisms have been developed to promote innovation or stimulate certain desired development outcomes and we will focus on these in the context of addressing the MSME financing gap.

Blended Finance represents an opportunity to drive significant new capital flows into high-impact sectors, while effectively leveraging private sector expertise in identifying and executing development investment strategies. The grant portion tends to be either in the form of TA, interest rate subsidies or direct investment grants. Typically, the grant element is provided by donors or other philanthropic funders while DFIs or the private sector supply the loan itself. Blended finance can be used for a range of development objectives with recent high-profile projects in the infrastructure and clean energy sectors. It can be, however, equally as relevant for increasing access to finance for SMEs.

**Innovative and Technology based Solutions (FinTech)**

FinTech is the combination of technology and innovative business models in financial services. Over the last few years, we have seen a proliferation of low cost, technology based financial products and platforms. By addressing some of the key constraints to the growth of MSME finance, Fintech has huge potential to impact SMEs globally (Hamilton, K., Beck, T. (2016)). Largely emerging as a response to the recent financial crisis and the advancement of technology, the FinTech industry has grown rapidly.76 At present, representation in the developing world is relatively small, however, based on the speed at which many countries have adopted advances such as mobile money technology it is expected that FinTech will play an increasingly important role over the next few years. The core characteristics of the sector are:

- Lending tends to be unsecured, which benefits SMEs who struggle to access collateral-based finance.
- Investors have a higher risk appetite than traditional financial intermediaries.
- Use of innovative credit scoring models (such as psychometric testing), which benefits SMEs and start-ups with limited verifiable information.
- Speed (transactions approved quickly) and convenience (no need to visit branches which catalyses flows of capital within and between communities, irrespective of distance).
- Low-cost base (no branches and less personnel) resulting in competitive rates and can give providers a buffer against the higher risk loans that they underwrite.
- Not subject to the same levels of compliance as traditional financial institutions, though this might change as regulatory frameworks catch up.
- Innovation in payment systems - the use of mobile phones (in particular) has transformed the money transfer and mobile payments sector allowing companies to make transactions through their phones or tablets and.
- Increased competition as new providers challenge the role of traditional banks.

**Blockchain-based financing: Initial Coin Offerings (ICOs) for SME financing**

Initial Coin Offerings (ICOs) consist of the creation of digital tokens by young micro-SMEs and start-ups and their distribution to investors in exchange for fiat currency or, in most cases, mainstream cryptocurrencies, such as Bitcoin or Ether (OECD (2020)). ICOs are also called crowd sales of coins or tokens or security token offerings, which are self-defined as no common classification of token offerings exists to date. ICOs are enabled by the use of Distributed Ledger Technologies (DLTs), such as the Blockchain, which facilitate the exchange of value without the need for a trusted central authority or intermediary (e.g., government, bank) and allow for efficiency gains driven by such dis-intermediation. Tokens are cryptographically secured and benefit from the inherent characteristics of DLTs on which they are built such as transparency, security and immutability of the ledger given its distributed nature. ICOs introduced an alternative new instrument for capital raising of MSMEs, with the potential to improve competition in SME financing. In addition to providing capital to those companies that have no alternative, ICOs could put pressure on existing financing sources (e.g., VCs) to compete and provide better terms for the financing of MSMEs. Parallels are made between ICOs and conventional crowdfunding finance.

## 3.2 Review of financing instruments and main actors active in the financing of MSMEs

There is a variety of sources of finance available to Moldovan businesses. However, the supply of financing instruments for MSMEs is more limited than for larger companies. Additionally, the lack of equity capital and collateral, particularly in the growth and expansion phase, is weighing on the access to finance diminishing the MSME demand for financing. Therefore, finance gaps exist especially in case of MSMEs that are looking for finance when starting-up, scaling-up or internationalizing their businesses. Consequently, both banking and non-banking systems are falling short of instruments to properly estimate and compensate for the risks associated to MSMEs.

Banking financing is the most important source for enterprises being able to provide a longer-term financing compared to non-banking institutions. However, the banking sector cannot satisfy the whole demand for financial resources in the actual market environment. Consequently, non-banking financial institutions such microfinance financial institutions, savings and credit associations and leasing companies are offering more suitable financing instruments for MSMEs in some cases. Micro enterprises, which are representing about 85% of all firms, can access financial resources via non-banking institutions easier compared to banking system. This is reflected in the magnitude of microfinance markets, which had MDL 11.7 billion of assets compared to MDL 53.3 billion in the banking system as of September 2021. Consequently, increased competition from microfinance institutions is paving the way for higher risk appetite and flexibility in the traditional banking sector. At the same time, the loans from savings and credit associations are usually small and have shorter maturity, which might not be suitable for ambitious MSMEs.

### 3.2.1 Debt market based instruments

In this chapter we will run through the available debt instruments in Moldova for MSMEs to reveal the maturity of financing mechanisms.

**Loans from business partners**

MSMEs are usually relying on own resources and might absorb loans from business partners. However, over 86% of MSMEs are micro enterprises, which means that the number of business partners are limited making such loans hard to come by. Additionally, individual loans are generally short term being unsuitable for MSMEs needing long-term investments.

**Asset-based finance**

*Loans for working capital*

Loans for working capital are usually offered to the MSMEs and start-ups up to 50-70% of annual sales revenues (maximum MDL 500ths for start-ups or MDL 10mln for other entities). The maturity of these loans are up to 24-36 months contingent on the availability of collateral while the grace period is oscillating from 0 to 120 days.

Overdraft arrangements have become more popular in the past few years. The limit is usually around 50% of monthly sales revenues for the preceding 12 months up to MDL 1.5mln without a collateral or MDL 2.5mln with a collateral. The maturity of overdraft loans could be up to 18 months. The banks are usually asking that 70% of sales revenues for the preceding six months to come through the bank. However, these loans are usually dedicated to entities in commerce and services.

Revolving loans are efficient way to finance entities needs. The credit limit is usually around 70% of annual sales revenues for the preceding year and is for a maturity up to 36 months.

Purchase order financing is another available option where the daily limit cannot exceed 70% of total sales revenues (up to MDL 2.5mln) for the preceding year for a maturity up to 12-36 months. This facility is usually dedicated for financing raw materials, salaries or taxes.

*Loans for investment purpose*

Loans for investments is usually up to 84 months and up to 90% of investment project with a 12-month grace period. These loans can be guaranteed up to 70% from ODIMM if the entrepreneur is a woman and SME.

*Leasing*

Vehicle leasing is dominating the market, which equipment leasing representing only around 8%. This form of financing costs more than bank lending but fewer guarantees are required from the borrower. The leasing arrangement might be up to 60 and 49 months for new and used equipment, respectively. and 48 If the object of the leasing contract is a unique or a large-scale good, the leasing arrangements may take a long time and require considerable effort.

*Agricultural loans*

The loans dedicated to agricultural sector have a maturity up to 60 months aiming to to finance the expenses for carrying out the activity in agriculture. The banks are offering the needed amount instantaneously on the card requiring only the identity card and/or entity registration documents without the need to offer a collateral. Additionally, the loans financing agricultural machines is popular as well, where the machine remains as a collateral. However, the banks cannot finance more than 80% meaning that 20% should be the contribution from the entrepreneur. The maturity might be up to 60 months with an 8-month grace period. Some banks even have customized deals offering loans to purchase machines from Belarus where 2/3 or up to 4.3% of the loan rate is compensated by БПС-Сбербанк from Belarus with loan maturity up to 60 months.

**Commercial lending**

Commercial bank lending to MSMEs undoubtedly plays a crucial role in the economy of the Republic of Moldova in terms of output, employment, private-sector activity and economic stability. However, bank lending to MSMEs is still developing. Moldovan MSMEs operate in a convoluted macroeconomic environment, facing political, labour, financial and monetary-market instability resulting in a high risk of default among SMEs.

Banks are reluctant to provide loans to MSMEs due to high processing and monitoring costs. Therefore, the banks are asking for significant collateral, which is not readily available for MSMEs. At the same time, the grace period is sometimes inexistent for MSME weighing on the ability to pay back the loan. On the top of that, the maturity of loans has a tendency to be shorter for MSMEs than for large companies. Additionally, the banking assets are relatively concentrated with Chișinău absorbing more than 70% of loans with other big cities such as Bălți, Cahul, Hâncești and Ungheni attracting the rest of them making limiting access to finance for rural MSMEs. All these, in tandem with some managerial inefficiency among MSMEs and limited information sharing with the credit bureau of non-banking entities, are creating an environment where access to finance for MSMEs is large impediment.

**Corporate bonds**

The capital market is heavily underdeveloped with limited available financial instruments available. Consequently, the non-existent trading on the regulated market of municipal or corporate bonds and the illiquidity of government bonds are preventing potential enterprises to contemplate placing bonds to finance their long-term, investments for example. The market for corporate bonds denominated in local currency is essentially non-existent. At the same time, the prohibition on issuing corporate bonds in foreign currency on local markets is deterring the enthusiasm of potential issuers. Therefore, corporates can access loans in foreign currency from international financial institutions, but they cannot issue foreign-denominated bonds. These limitations are also unfavourable to foreign investors and the Moldovan diaspora who still do not trust the stability of the local currency in the absence of a liquid secondary market.

However, Trans-Oil, a private large agricultural corporate, issued two Eurobonds, with the first and larger one, in April 2019, raising USD 300mn at a 12% coupon rate. Also, in April 2021, Trans-Oil issued a USD 400mn Eurobond at 8.45% buying back its previously issued bond. At the same time, IuteCredit Europe, registered in Estonia, has recently issued Eurobonds in the amount of EUR 75 million for 5 years following several smaller issuances of EUR 10-20mln. The bonds are admitted to the Regulated Market of the Frankfurt Stock Exchange. This major development is suggesting that solid MSMEs might target potential Eurobonds issuance on external markets.

A bond trading platform, provided by Bloomberg, has been in place since late 2019. However, the monthly government bond trading volume has been small, averaging only MDL 22m while the number of transactions oscillating between 0 and 15. Therefore, further development of the electronic bond trading platform could have a significant impact on the transparency of the price formation process as a valid reference for a more dynamic secondary market. In addition, the authorities in collaboration with the Central Securities Depository and the support of USAID Financial Sector Transparency Activity is planning to launch a government securities retail platform. The scope of the platform includes primarily the direct purchase of government securities by retail investors and the sale of government securities by retail investors to primary dealers, prior to maturity. Eventually, corporate bonds could be added to this retail platform boosting the liquidity of potential corporate bonds encouraging even MSMEs to enter the capital market.

The role of international investors in the local government securities is minimal and their share was less than 0.05%. International clearance is a top priority for the central depository and could raise the participation by international investors in the local market. In addition, Moody's is the only credit rating agency covering Moldova, underlining the scarce investor interest. The current rating is B3 stable, and the strengthening of country's governance and institutional profile might lead to an upgrade.

Recently, two municipalities have already issued municipal bonds, which have also been admitted for secondary market transactions on the stock exchange. The Ministry of Finance approval of the issuance (keeping debt service below 30 per cent of the municipality's income) and the government guarantee lowered the risk premium of municipal bonds and attracted significant interest. Chisinau municipality will seek to issue a 65 million in Lei (€ 3.2 million) 7-year municipal bond to fund a modernisation of electric trolley buses, which can be considered as green. All these recent developments could also boost the dynamics of financial markets enticing corporate and MSMEs to issue bonds.

**Alternative debt**

Access to finance for start-ups and innovation projects can be more difficult, as their risk profile and their capital structure require different financing approaches compared to funding for traditional MSMEs. Investors treat small, innovative, young firms differently from others, due to their elevated risk profile and the high share of intangible. Therefore, there is an increasing need for private partners, such as venture funds or business angels, willing to support innovative MSMEs. However, the few investment funds and business angels that are interested investing in Moldova prefer equity financing targeting well established companies that could generate investment projects with attractive rate of return.

**Crowdlending**

Fagura is the only crowdfunding platform that designed a marketplace for loans. At the moment, investors are offering consumer loans financing expenditures such as holidays, home repairs or even refinancing of other more expensive loans. The interest rate oscillated between 15% and 30% for loans up to EUR 5000 and maturity up to 5-year. The attractiveness of returns for investors and smoother access to finance for private persons is paving the way for an integration of MSMEs in the current crowdfunding ecosystem. Consequently, Fagura is planning to offer the possibility to invest in MSME loans. At the same time, the government has already drafted a law on crowdfunding aiming to promote the sustainable development of MSMEs and create an attractive investment environment for MSMEs via crowdfunding. The law should be able to strike a balance between investor protections due to high default rates and MSMEs improvement to access finance.

### 3.2.2 Equity market based instruments

**Issuing shares/IPO**

The majority stakes in large companies are usually held by a small number of shareholders. Therefore, the potential minority equity stakes in enterprises admitted to Moldova Stock Exchange are not attractive to investors, which leads to a limited number of transactions due to the lack of offers of shares. Currently, the capitalisation of shares available for trading on the Moldovan Stock Exchange was only 1.16% of GDP (MDL 2.4bn) in January 2021. In addition, joint stock type of organisation is not popular among MSMEs in Moldova; therefore, potential stock issuances on market is relatively limited. At the moment, the largest bank in Moldova is aiming to do an IPO in the following couple of years on one of major stock exchanges in Europe. This should give an impulse to local financial markets

**Private Equity and business angels**

There are only a handful private equity funds active in Moldova. Fribourg capital, led by the successful entrepreneur Ion Sturza, has invested in Planable, a platform for marketing teams to collaborate on social media content, Palplast, who is manufacturing polyethylene high density pipes, Agroinstal, a company managing prime agricultural land, Codreanca, one of the largest players in the garments manufacturing industry in Moldova. Horizon Capital is a leading private equity firm in Emerging Europe, backed by over 40 institutional investors. We have a tenure of over 27 years in the region and manage five funds with assets under management of over USD 1.1 billion. The fund invested in Purcari, one of the largest wine and brandy groups in the CEE region, Moldova-Agroindbank (MAIB), largest commercial bank in Moldova, and Glass Container Company, largest glass packaging manufacturing platform in Moldova. Berdos Investment is the first private investment fund originated in the Republic of Moldova managing about EUR 15mn worth of investments. New Century Holdings is USD 3 billion assets under management focused in the Central and Eastern Europe. Their investments in Moldova are in agricultural land, Zorile, largest shoe manufacturing, Z tower, office building, Prime Capital, large non-banking financial institutions, Express Leasing, large microfinance institution, and others.

The above-mentioned investments of private equity funds are revealing the lack of interest in MSMEs. Therefore, business angels might cover this gap. Business Angels Moldova (BAM) is a group of experienced businesspeople and top managers ready to invest in start-ups at their early stage of development. BAM is a network of local investors, supported by the secretariat team, for executing the daily activities and duties. They can offer investments up to USD 25 thousand per business and mentorship from leading professionals. However, business angels, including their networks, usually focus on high-growth/high-potential firms in high tech areas such ITC, biotech, clean tech and health-related technologies. Also, considering limited supply of investment projects with a high rate of return, the business angels or venture funds environment has limited upside in Moldova.

Non-profit development funds are also an alternative. For example, the Global Innovation Fund is a impact-first investment fund headquartered in London with offices in Washington, D.C. and Nairobi. They invest in the development, rigorous testing, and scaling up of new products, services, business process, or policy reforms that are more cost-effective than current practice and targeted at improving the lives of the world's poorest people. They have we an open window to receive innovative ideas and can offer between USD 50ths and USD 15mln grants and investments in innovative SMEs. Also, Development Innovation Ventures (DIV) from USAID provides grant funding to innovators and researchers to test new ideas, take strategic risks, build evidence of what works, and advance the best solutions. DIV's tiered-funding model embraces risk at early stages and mitigates risk at later stages, ensuring that funding is targeted to the most cost-effective innovations that can improve people's lives. The fund can offer between USD 200 thousand to USD 5 million.

**Equity Crowdfunding/IPO**

The major challenge lays in regulation. The law on crowdfunding should establish the appropriate framework for investor protection, transparency, and information disclosure. However, the registration of change in the ownership of the limited company is cumbersome in Moldova now requiring physical presence of investor at some point. This is a major drawback for the development of equity crowdfunding in Moldova. Nonetheless, the new government has a solid focus on digitalisation and the likelihood of digitalisation of ownership change process has increased. Therefore, MSMEs could eventually rely on equity crowdfunding attracting investors from all over the world, especially diaspora.

### 3.2.3 Public initiatives

**Tax incentives for MSMEs in Moldovan Legislation**

Moldovan legislation does not contain many tax instruments to support MSMEs. However, there is a special tax regime designed for MSMEs, and there is a tax on profits differentiation for farmers that act like a peasant household (7% instead of 12%). As for the special regime for MSMEs, it should be mentioned that it is applied to legal entities that are not registered as VAT payers. The 4% rate is applied to the company's income (mainly turnover) against 12% applied to profits in the general regime. Still, the companies could not use it if the share of income for the previous year from the provision of business and management consultancy services was higher than 60% of the company's revenue.

### 3.2.4 Initiatives and programmes of development partners

Investments and external assistance projects from development partners is filling the gap of the undeveloped capital market and risk-averse banking system. Therefore, these programs are currently playing a crucial role in supporting and financing MSMEs. These may be more impermanent than bank credit, but investments made at the right time may be more effective and efficient than bank loans. We are presenting below some of the most valuable programmes.

The Livada Moldovei project is a credit line offered by the European Investment Bank. The program is offering investments in restructuring and modernizing the entire value chain of the horticultural branch in the Republic of Moldova: fruit growing, viticulture, vegetable growing, oenology, floriculture, arboriculture, landscape architecture, agriculture. It offers up to EUR 5 million for investments or EUR 600 thousand for working capital for 10 years or 5 years, respectively, with a grace period up to 4 years for investment loans. The credit line is also relying on fiscal facilities such as exemptions from VAT, excise, and custom duties.

EU4Business is offered from EBRD resources. The project contains a grant component of 10% or 15% of the amount of funding, depending on the complexity of the project and its compliance with EU requirements and standards. The program is usually financing investments in business development, volume and production capacity, energy efficiency, production, and use of renewable energy projects. It offers up to EUR 3 million, up to 100% of the cost of the investment project, excluding VAT, with a repayment period up to 72 months.

Proiectul Ameliorarea Competitivităţii (CAP II) supports enterprises with export activities related to agriculture and non-agricultural production activities. The program can finance investment projects up to USD 800 thousand, which may include up to 40% working capital with a maturity up to 8 years. The program also offers zero rate of VAT on imports and local deliveries, exemption from payment of customs duties, customs procedures and excise duties.

Green Economy Financing Facility is offered by EBRD and is co-financed by the Green Climate Fund and the Turkish Ministry of Finance and Treasury. The total loan amount could be up to EUR 300 thousand for pre-approved technologies, included in the Green Technology Selector, EUR 500 thousand for complex projects in the residential sector, EUR 5 million for complex investments in the commercial and industrial sectors. The main benefits are stemming from subsidised interest rate, no personal contribution and technical assistance.

IFAD VII (Fondul Internaţional pentru Dezvoltarea Agricolă) offers several customised programmes. For MSME, the project is offering guarantees and loans up to USD 250 thousand for economic entities outside Chișinău and Bălți, and the own contributions should be at least 25%. It offers tax waivers for imported machinery. For women, the loan amount is up to MDL 300 thousand with loan term up to 5 years, including a grace period of 2 years. The own contribution should be around 5% of the total cost of the investment. Also, the interest rate may be subsidized, and the grant portion could be up 80% of the loan amount with a maximum of MDL 84 thousand. For young entrepreneurs, the program is offering guarantees and loans up to USD 100 thousand if they are owning at least 50% of an economic entity not situated in Chișinău and Bălți. The grace period is about 4 years, and the own contributions should be at least 10% and it offers tax waivers for imported machinery.

RISP (Proiectul de investiții servicii rurale) is funded by the World Bank. The aim of the project is to provide long-term support to rural economic sectors. The available loan amount is up to USD 500 thousand for investment projects with a maturity of up to 7 years and grace period of 3 years. For working capital financing, the available loan amount is up to USD 400 thousand for 4 years and grace period up to 12 months.

Agenția pentru Dezvoltarea și Modernizarea Agriculturii (former 2KR) is co-financed by Japan International Cooperation Agency. This programme is dedicated for selling of agricultural machines and irrigation systems up to USD 100 thousand. The beneficiary is paying upfront 25% and the rest of the sum in three annual tranches without any interest rate. The beneficiary is not paying any VAT or customs duties for imported machinery.

Răspuns de urgență și suport IMM is offered by the Council of Europe Development Bank. This program is aiming to support business needs during the pandemic crisis. Funding is provided to entrepreneurs for the purpose of: creating and maintaining permanent or seasonal viable jobs; supporting investments in productive fixed assets; ensuring the working capital needs for maintaining the activity. The loan amount could be up to EUR 600 thousand for an investment project with a maturity of 6 years and grace period of 2 years and up to EUR 300 thousand for working capital for 4 years and grace period of 12 months.

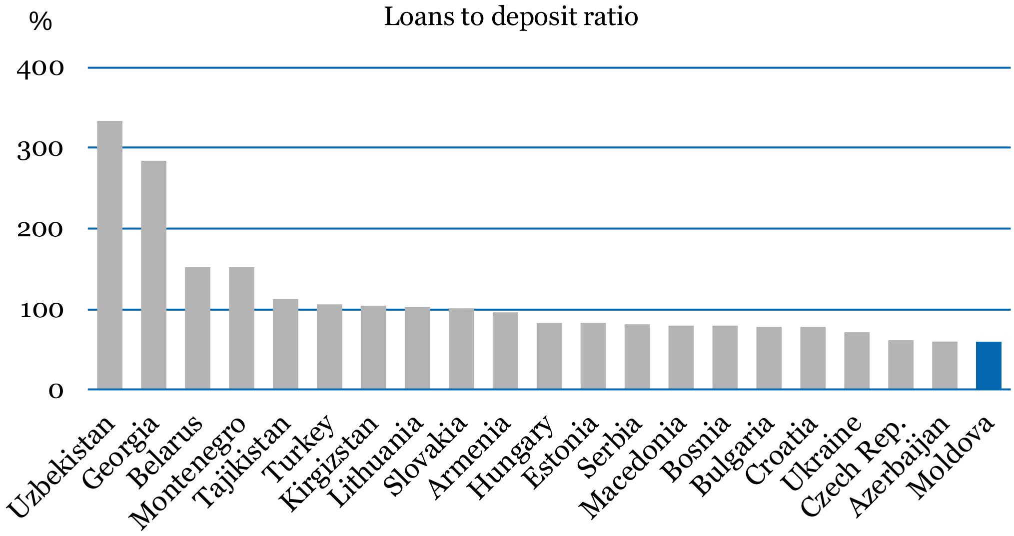
ODIMM has developed several programmes supported by the development partners. PARE 1+1 has the objective to channel remittances into the economy. At the same time, the "Women in Business" and "Start for Youth" are specific programmes dedicated to women and youth encouraging the development of new businesses.

The Agency for Intervention and Payments in Agriculture (AIPA) is providing targeted subventions for entrepreneurs that would like to purchase new equipment, take a loan, buy an insurance policy and others. These subventions have had significant impact reshaping the local agriculture.

## 3.3. Highlights of portfolio evolution (in Moldova) in the last years

Moldovan banking system is well capitalised. The loans to deposit ratio was slightly above 60% in August 2021, which is the lowest one in the region (Figure 16). The phenomenon is explained by the reluctance of banking system to absorb risk, conservative regulations following the banking fraud in 2014 and lack of attractive loan applications.

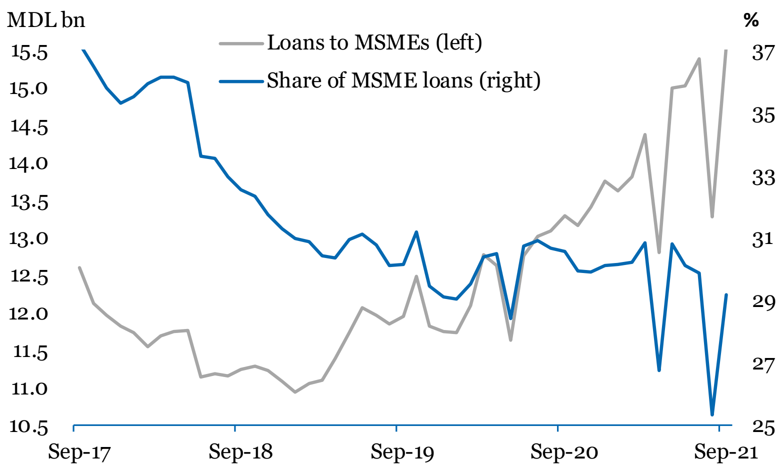
*Figure 16. Loans to Deposits ratio, regional view [%, 2021]*




*Source: National Bank of Moldova, PwC analysis*

In recent years, the loans to MSMEs have been increasing from MDL 12.6 billion in September 2017 to MDL 15.5 billion in September 2021 (Figure 17). However, the share of MSME loans in total loans has been diminishing from 37.2% in September 2017 to 29.2% four years later. This reflects lower risk appetite of banks and deterioration of loan applications from MSMEs in the past four years fuelling the development of microfinance institutions.

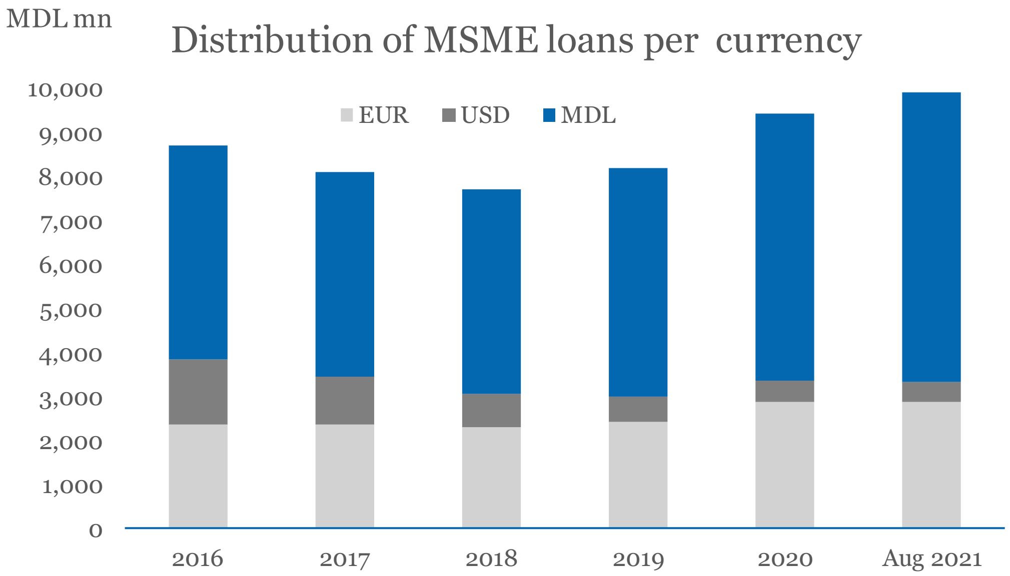
*Figure 17. Loans to MSMEs are constantly increasing, but the share in the whole banking system is diminishing [%, 2017-2021]*




*Source: National Bank of Moldova, PwC analysis*

The distribution of MSME loans per currency (Figure 18) is suggesting that the share of MDL denominated loans increased from 55.8% in 2016 to 66.5% in August 2021. This boost has been mostly on the account of decreasing USD denominated loans, whose share shrank from 16.9% in 2016 to only 4.6% in August 2021, while the share of EUR denominated loans has remained constant.

*Figure 18.The share of MDL denominated loans has been increasing [%, 2016-2021]*




*Source: National Bank of Moldova, PwC analysis*

The shares of MDL denominated loans in total MSME loans of cultivation of plants from non-permanent crops, cultivation of plants from permanent crops, renting and operating of own or leased real estate and wholesale of food, beverages and tobacco were 34.6%, 6%, 6.4% and 2.9%, respectively, as of August 2021 (Figure 19).

The MSME loan portfolio in MDL has significantly migrated towards cultivation of plants from non-permanent crops as its share in the total loans doubled from 17.2% in December 2016 to 34.6% indicating a solid development of MSMEs in this sector and a potential inefficiency in the allocation of financial resources. The MSMEs in freight transport by road and relocation services (9.2%), cultivation of plants from permanent crops (8.1%), manufacture of beverages (6.8%) and renting and operating of own or leased real estate (6.2%) have the highest shares in EUR loan portfolio.

It is worth mentioning that the EUR loan portfolio has rebalanced from renting and operating of own or leased real estate and manufacture of beverages towards cultivation of plants from permanent crops and freight transport by road and relocation services since the end of 2016. At the same time, specialized wholesale of other products, wholesale of raw agricultural products and live animals and manufacture of beverages are relying the most on USD loans while the share of renting and operating of own or leased real estate has significantly decreased since the December 2016.

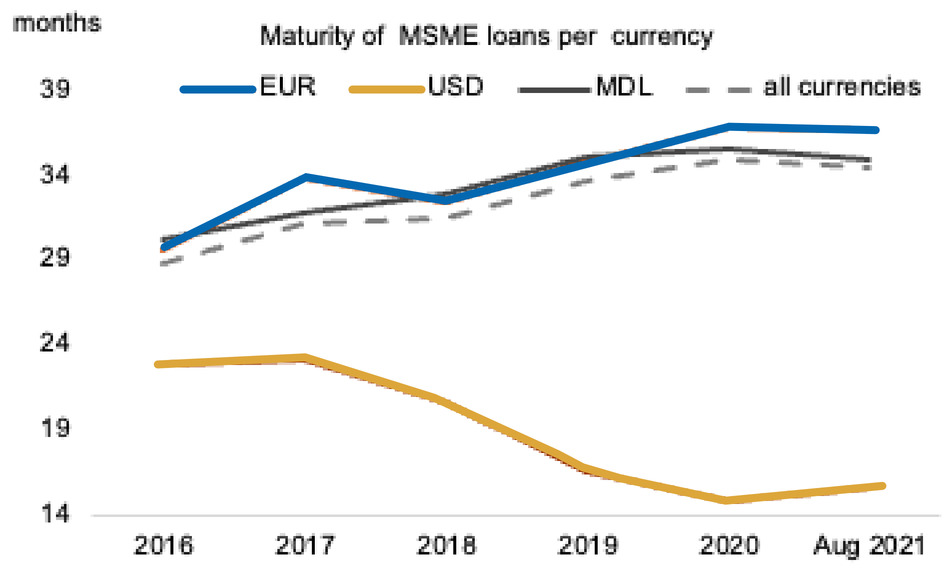
*Figure 19. Distribution of loans per economic activity [%, 2016-2021]*

| CEAM | Sector | Share of loans in EUR as % of total in 2016 | Share of loans in USD as % of total in 2016 | Share of loans in MDL as % of total in 2016 | Share of loans in EUR as % of total in August 2021 | Share of loans in USD as % of total in August 2021 | Share of loans in MDL as % of total in August 2021 | Changes in share of loans in EUR between December 2016 and August 2021 | Changes in share of loans in USD between December 2016 and August 2021 | Changes in share of loans in MDL between December 2016 and August 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| A011 | Cultivation of plants from non-permanent crops | 4.3% | 2.6% | 17.2% | 5.1% | 2.5% | 34.6% | 0.8% | -0.1% | 17.4% |
| A012 | Cultivation of plants from permanent crops | 3.3% | 5.4% | 4.0% | 8.1% | 4.0% | 6.0% | 4.8% | -1.4% | 2.0% |
| A014 | Animal husbandry | 2.2% | 0.4% | 3.5% | 2.9% | | 2.2% | 0.7% | | -1.3% |
| C103 | Processing and preserving of fruit and vegetables | 0.9% | 1.1% | 0.9% | 1.0% | 0.6% | 0.4% | 0.1% | -0.4% | -0.5% |
| C105 | Manufacture of dairy products | 0.7% | | 0.5% | | | 0.4% | | | -0.1% |
| C107 | Manufacture of bakery and farinaceous products | 0.8% | 0.2% | 1.2% | 0.8% | | 1.0% | 0.0% | | -0.2% |
| C108 | Manufacture of other food products | 0.3% | 0.9% | 0.6% | 1.0% | | 0.3% | 0.7% | | -0.3% |
| C110 | Manufacture of beverages | 10.8% | 10.5% | 1.7% | 6.8% | 4.2% | 0.8% | -4.0% | -6.3% | -0.9% |
| C141 | Manufacture of wearing apparel, except fur apparel | 1.8% | 0.2% | 0.5% | 2.2% | 0.1% | 0.3% | 0.5% | -0.1% | -0.2% |
| C162 | Manufacture of products of wood, cork, straw and plaiting materials | 0.6% | 0.0% | 0.5% | 2.1% | 1.3% | 0.4% | 1.5% | 1.3% | -0.1% |
| C171 | Manufacture of pulp, paper and paperboard | 0.3% | | 0.8% | 0.3% | | 0.4% | 0.0% | | -0.4% |
| C222 | Manufacture of plastic products | 0.8% | 0.7% | 0.5% | 0.3% | 0.4% | 0.4% | -0.5% | -0.4% | -0.1% |
| C236 | Manufacture of articles of concrete, cement and plaster | 0.2% | 0.2% | 0.9% | 0.5% | 0.1% | 0.8% | 0.4% | -0.1% | 0.0% |
| C259 | Manufacture of other fabricated metal products | 0.2% | | 0.6% | 0.7% | 0.4% | 0.2% | 0.5% | | -0.4% |
| C310 | Manufacture of furniture | 1.0% | 0.1% | 1.0% | 1.3% | | 0.6% | 0.3% | | -0.5% |
| F412 | Construction work for residential and non-residential buildings | 0.7% | 2.9% | 4.7% | 1.9% | | 2.2% | 1.2% | | -2.5% |
| F429 | Construction of other civil engineering projects | 0.1% | 0.1% | 0.5% | 0.0% | | 0.9% | -0.1% | | 0.3% |
| F432 | Electrical and sanitary installation works and other construction installation works | 0.3% | 0.0% | 0.8% | 0.9% | | 0.4% | 0.6% | | -0.4% |
| G452 | Maintaining and repairing vehicles | 0.5% | 0.2% | 0.7% | 0.3% | 0.4% | 0.4% | -0.2% | 0.2% | -0.3% |
| G453 | Sale of motor vehicle parts and accessories | 2.8% | 1.6% | 0.9% | 1.8% | 0.9% | 1.3% | -0.9% | -0.7% | 0.5% |
| G462 | Wholesale of raw agricultural products and live animals | 4.3% | 14.1% | 2.3% | 1.8% | 11.7% | 1.9% | -2.5% | -2.4% | -0.4% |
| G463 | Wholesale of food, beverages and tobacco | 1.1% | 4.3% | 4.1% | 4.3% | 5.8% | 2.9% | 3.2% | 1.5% | -1.3% |
| G464 | Wholesale of household goods | 1.8% | 4.4% | 3.2% | 2.0% | 7.2% | 1.8% | 0.2% | 2.8% | -1.4% |
| G467 | Specialized wholesale of other products | 3.2% | 10.4% | 2.9% | 5.9% | 19.4% | 4.2% | 2.7% | 9.0% | 1.3% |
| G469 | Non-specialized wholesale trade | 1.4% | 3.0% | 1.0% | 2.0% | 3.0% | 1.2% | 0.6% | 0.0% | 0.2% |
| G471 | Retail sale in non-specialised stores | 1.1% | 2.9% | 3.4% | 0.3% | 2.4% | 2.1% | -0.7% | -0.5% | -1.3% |
| G472 | Retail sale of food, beverages and tobacco in specialised stores | 0.8% | 0.8% | 0.6% | 0.3% | 2.2% | 0.6% | -0.5% | 1.5% | 0.0% |
| G473 | Retail sale of automotive fuel in specialised stores | 0.7% | 1.9% | 0.8% | 0.3% | | 0.3% | -0.3% | | -0.5% |
| G475 | Retail sale of other household equipment in specialised stores | 0.6% | 1.8% | 3.2% | 0.8% | 4.5% | 2.7% | 0.2% | 2.7% | -0.5% |
| G477 | Retail sale of other goods in specialised stores | 2.5% | 1.6% | 1.6% | 1.8% | 1.3% | 2.2% | -0.8% | -0.3% | 0.6% |
| H493 | Other passenger land transport | 0.7% | 0.2% | 0.7% | 0.7% | | 0.4% | -0.1% | | -0.4% |
| H494 | Freight transport by road and relocation services | 4.4% | 0.9% | 2.5% | 9.2% | 1.2% | 2.3% | 4.8% | 0.3% | -0.2% |
| H521 | Storage | 0.5% | 0.2% | 1.0% | 1.4% | 0.2% | 0.2% | 0.9% | 0.0% | -0.8% |
| I561 | Restaurants | 0.5% | 0.2% | 1.1% | 0.0% | | 0.6% | -0.5% | | -0.5% |
| I563 | Bars and other beverage service activities | 0.5% | 0.3% | 0.9% | 0.3% | 0.8% | 0.5% | -0.2% | 0.5% | -0.4% |
| J591 | Motion picture, video and television production activities | 0.9% | 5.0% | 0.6% | 0.2% | 5.6% | | -0.7% | 0.6% | |
| K649 | Other financial intermediation activities, except insurance and pension funding activities | 3.5% | 0.7% | 1.2% | 0.7% | | 1.6% | -2.8% | | 0.4% |
| L681 | Buying and selling of own real estate | | | 0.6% | | | 0.4% | | | -0.2% |
| L682 | Renting and operating of own or leased real estate | 16.8% | 4.1% | 13.9% | 6.2% | 3.9% | 6.4% | -10.6% | -0.2% | -7.5% |
| Q869 | Other human health activities | 0.1% | | 2.1% | 0.4% | | 1.0% | 0.2% | | -1.1% |

*Source: National Bank of Moldova, PwC analysis*

From maturity perspective (Figure 20) , the average maturity of MSME loans has increased by 6 months to 34 months in the past five years. The EUR and MDL denominated loans have seen a maturity extension of 7 and 5 months, respectively, while the maturity of USD denominated loans has diminished as the MSMEs were paying off these loans.

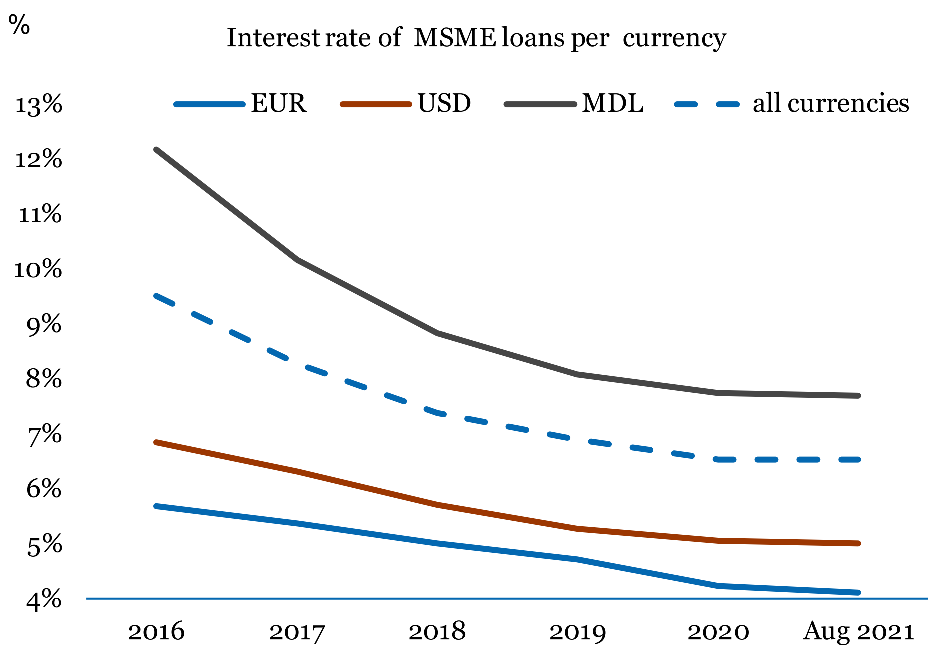
*Figure 20. The maturity of loans has been increasing [%, 2016-2021]*




*Source: National Bank of Moldova, PwC analysis*

The interest rate of MSME loans has been down trending in the past few years. The interest rate of MDL, EUR and USD denominated loans decreased by 4.5%, 1.6% and 1.8%, respectively, between the end of 2016 and August 2021.

*Figure 21. The interest rate has been decreasing [%, 2016-2021]*




*Source: National Bank of Moldova, PwC analysis*

Disaggregated data per economic activity shows that services such as education (93 months), travel agencies (76 months), accounting (67 months), dental care (61 months), catering (64 months) have the loans with longest maturities in August 2021. In the industry, manufacture of wearing apparel (58 months), manufacture of basic pharmaceutical products (56 months) and extraction of stone (53 months) are benefitting from long-term loans while in the agriculture sector the loans maturity is oscillating between 26 and 47 months. From historical perspective, the loans granted to manufacture of basic pharmaceutical products (49 months), activities of travel agencies and tour operators (38 months) and manufacture of structural metal products (35 months) increased the most in maturity terms between December 2016 and August 2021.

The interest rates were the highest in activities auxiliary to financial intermediation, except insurance and pension funding activities (10.7%), construction of utility projects (9.9%), trade in motorcycles, parts and accessories; maintenance and repair of motorcycles (9.5%) and manufacture of wearing apparel, except fur apparel (9.3%) in August 2021. At the same time, the lowest interest rate was in Renting and leasing of motor vehicles (4.1%), catering for events and other catering services (4.6%) and recovery of recyclable materials (5.9%). Also, the interest rate decreased the most in sawmilling and planning of wood (13.7p.p.), manufacture of electric lighting equipment (10p.p.) and catering for events and other catering services (10p.p.).

*Figure 22. Maturity and interest rate per economic activity [%, 2016-2021]*

| CEAM | Sector | Bank MSME loans maturity in MDL in 2016 (months) | Bank MSME loans interest rate in MDL in 2016 (months) | Bank MSME loans maturity in MDL in Aug 2021 (months) | Bank MSME loans interest rate in MDL in Aug 2021 (months) | Changes in loans maturity in MDL between December 2016 and August 2021 | Changes in loans interest rate in MDL between December 2016 and August 2021 |
|---|---|---|---|---|---|---|---|
| A011 | Cultivation of plants from non-permanent crops | 27.4 | 12.0% | 32.0 | 8.1% | 4.6 | -3.9 |
| A012 | Cultivation of plants from permanent crops | 28.8 | 11.3% | 45.4 | 7.7% | 16.5 | -3.6 |
| A013 | Cultivation of plants for propagation | 3.7 | 15.5% | 26.2 | 7.8% | 22.5 | -7.7 |
| A014 | Animal husbandry | 35.3 | 11.7% | 35.4 | 7.1% | 0.1 | -4.6 |
| A015 | Mixed farm activities (vegetable growing combined with animal husbandry) | 23.0 | 11.0% | 46.7 | 7.6% | 23.7 | -3.4 |
| A016 | Agricultural ancillary and post - harvest activities | 34.9 | 11.8% | 40.9 | 8.4% | 6.0 | -3.4 |
| B081 | Extraction of stone, sand and clay | 32.8 | 11.2% | 53.3 | 8.1% | 20.5 | -3.1 |
| C101 | Processing and preserving of meat and production of meat products | 34.0 | 10.3% | 23.2 | 8.5% | -10.8 | -1.8 |
| C102 | Processing and preserving of fish, crustaceans and molluscs | 19.5 | 14.8% | 8.8 | 9.0% | -10.7 | -5.7 |
| C103 | Processing and preserving of fruit and vegetables | 13.8 | 11.9% | 33.7 | 8.1% | 19.9 | -3.8 |
| C104 | Manufacture of vegetable and animal oils and fats | 42.0 | 13.2% | 15.2 | 8.4% | -26.7 | -4.8 |
| C106 | Manufacture of grain mill products, starches and starch products | 28.4 | 12.2% | 51.9 | 7.6% | 23.5 | -4.6 |
| C107 | Manufacture of bakery and farinaceous products | 38.5 | 13.0% | 29.6 | 8.3% | -8.9 | -4.7 |
| C109 | Manufacture of prepared animal feeds | 16.6 | 10.1% | 8.1 | 9.2% | -8.6 | -0.9 |
| C110 | Manufacture of beverages | 11.4 | 7.9% | 30.8 | 6.3% | 19.3 | -1.6 |
| C139 | Manufacture of other textiles | 33.7 | 13.7% | 28.9 | 5.9% | -4.9 | -7.8 |
| C141 | Manufacture of wearing apparel, except fur apparel | 31.4 | 13.4% | 58.1 | 9.3% | 26.6 | -4.1 |
| C161 | Sawmilling and planing of wood | 20.7 | 22.0% | 40.9 | 8.3% | 20.1 | -13.7 |
| C162 | Manufacture of products of wood, cork, straw and plaiting materials | 26.5 | 12.2% | 29.9 | 9.0% | 3.3 | -3.2 |
| C172 | Manufacture of articles of paper and paperboard | 50.3 | 8.2% | 33.8 | 6.5% | -16.5 | -1.7 |
| C181 | Printing and printing service activities | 74.3 | 7.1% | 37.2 | 7.1% | -37.1 | 0.0 |
| C201 | Manufacture of basic chemicals | 11.4 | 13.5% | 22.2 | 8.4% | 10.8 | -5.2 |
| C205 | Manufacture of other chemicals | 51.2 | 11.1% | 48.7 | 8.8% | -2.5 | -2.4 |
| C211 | Manufacture of basic pharmaceutical products | 6.5 | 14.1% | 55.8 | 7.7% | 49.3 | -6.3 |
| C212 | Manufacture of pharmaceutical preparations | 18.7 | 7.6% | 14.4 | 8.4% | -4.4 | 0.8 |
| C222 | Manufacture of plastic products | 20.8 | 13.1% | 30.0 | 7.9% | 9.2 | -5.2 |
| C236 | Manufacture of articles of concrete, cement and plaster | 36.3 | 12.3% | 32.6 | 8.4% | -3.6 | -4.0 |
| C237 | Cutting, shaping and finishing of stone | 37.8 | 5.2% | 14.8 | 7.7% | -23.0 | 2.5 |
| C243 | Manufacture of other products of first processing of steel | 27.7 | 11.7% | 19.8 | 8.8% | -7.9 | -2.9 |
| C251 | Manufacture of structural metal products | 9.5 | 12.1% | 45.0 | 8.7% | 35.5 | -3.4 |
| C255 | Forging, pressing, stamping and roll-forming of metal; powder metallurgy | 21.8 | 11.8% | 32.7 | 7.9% | 10.9 | -3.9 |
| C256 | Treatment and coating of metals; machining | 42.2 | 10.0% | 41.5 | 7.8% | -0.7 | -2.3 |
| C259 | Manufacture of other fabricated metal products | 39.9 | 9.8% | 18.0 | 8.9% | -21.9 | -0.9 |
| C274 | Manufacture of electric lighting equipment | 0.9 | 19.0 | 27.6 | 9.0% | 26.8 | -10.0 |
| C281 | Manufacture of general purpose machinery | 69.9 | 11.6% | 22.0 | 8.5% | -47.9 | -3.1 |
| C282 | Manufacture of other general purpose machinery and equipment | 8.9 | 10.0% | 27.2 | 8.5% | 18.2 | -1.5 |
| C289 | Manufacture of other special purpose machinery and equipment | 18.0 | 14.4% | 9.3 | 8.3% | -8.8 | -6.1 |
| C310 | Manufacture of furniture | 35.4 | 12.0% | 43.6 | 7.2% | 8.1 | -4.8 |
| C331 | Repair of metal articles, machinery and equipment | 40.4 | 12.0% | 22.8 | 9.0% | -17.6 | -3.0 |
| C332 | Installation of industrial machinery and equipment | 45.5 | 9.1% | 29.4 | 6.2% | -16.1 | -2.9 |

| CEAM | Sector | Bank MSME loans maturity in MDL in 2016 (months) | Bank MSME loans interest rate in MDL in 2016 (months) | Bank MSME loans maturity in MDL in Aug 2021 (months) | Bank MSME loans interest rate in MDL in Aug 2021 (months) | Changes in loans maturity in MDL between December 2016 and August 2021 | Changes in loans interest rate in MDL between December 2016 and August 2021 |
|---|---|---|---|---|---|---|---|
| D351 | Production, transmission and distribution of electricity | 35.6 | 12.6% | 59.7 | 8.4% | 24.1 | -4.1 |
| E360 | Water collection, treatment and distribution | 16.4 | 15.9% | 6.8 | 7.8% | -9.6 | -8.2 |
| E370 | Wastewater collection and treatment | 22.8 | 18.4% | 7.3 | 9.6% | -15.5 | -8.8 |
| E383 | Recovery of recyclable materials | 55.1 | 12.2% | 51.9 | 5.9% | -3.2 | -6.4 |
| F412 | Construction work for residential and non-residential buildings | 15.8 | 13.8% | 11.3 | 6.8% | -4.5 | -7.0 |
| F421 | Construction of roads and railways | 15.2 | 12.6% | 24.5 | 8.8% | 9.3 | -3.8 |
| F422 | Construction of utility projects | 30.7 | 13.0% | 17.5 | 9.9% | -13.2 | -3.1 |
| F429 | Construction of other civil engineering projects | 19.5 | 13.1% | 31.5 | 8.7% | 12.1 | -4.4 |
| F431 | Demolition and site preparation work | 22.9 | 16.2% | 36.4 | 8.7% | 13.5 | -7.5 |
| F432 | Electrical and sanitary installation works and other construction installation works | 13.8 | 14.2% | 14.1 | 9.1% | 0.4 | -5.1 |
| F433 | Finishing work | 25.2 | 11.5% | 47.6 | 6.9% | 22.4 | -4.6 |
| F439 | Other special construction works | 23.4 | 15.5% | 18.9 | 8.4% | -4.5 | -7.1 |
| G452 | Maintaining and repairing vehicles | 36.3 | 12.2% | 38.8 | 8.6% | 2.5 | -3.6 |
| G453 | Sale of motor vehicle parts and accessories | 31.4 | 11.3% | 52.0 | 7.1% | 20.6 | -4.3 |
| G454 | Trade in motorcycles, parts and accessories; maintenance and repair of motorcycles | 15.2 | 13.7% | 32.9 | 9.5% | 17.7 | -4.2 |
| G461 | Wholesale trade activities | 16.8 | 11.1% | 35.0 | 7.2% | 18.2 | -3.9 |
| G462 | Wholesale of raw agricultural products and live animals | 17.2 | 12.9% | 26.5 | 8.2% | 9.2 | -4.7 |
| G463 | Wholesale of food, beverages and tobacco | 25.4 | 12.4% | 39.4 | 7.6% | 14.0 | -4.8 |
| G464 | Wholesale of household goods | 27.4 | 11.6% | 20.3 | 6.0% | -7.1 | -5.6 |
| G465 | Wholesale of computer and telecommunications equipment | 14.4 | 15.8% | 31.9 | 7.0% | 17.5 | -8.8 |
| G466 | Wholesale of other machinery, equipment and supplies | 23.1 | 13.6% | 35.0 | 8.2% | 11.9 | -5.4 |
| G467 | Specialized wholesale of other products | 24.4 | 13.2% | 36.4 | 7.9% | 12.0 | -5.3 |
| G469 | Non-specialized wholesale trade | 21.0 | 14.6% | 30.5 | 8.0% | 9.5 | -6.6 |
| G471 | Retail sale in non-specialised stores | 34.3 | 12.1% | 38.4 | 8.4% | 4.0 | -3.6 |
| G472 | Retail sale of food, beverages and tobacco in specialised stores | 28.7 | 12.6% | 50.5 | 7.3% | 21.7 | -5.3 |
| G473 | Retail sale of automotive fuel in specialised stores | 24.1 | 14.4% | 30.8 | 9.0% | 6.7 | -5.5 |
| G474 | Retail sale of information and communication equipment in specialised stores | 44.0 | 14.1% | 35.4 | 9.3% | -8.6 | -4.8 |
| G475 | Retail sale of other household equipment in specialised stores | 36.6 | 12.0% | 32.9 | 8.1% | -3.7 | -3.9 |
| G476 | Retail sale of cultural and recreation goods in specialised stores | 19.5 | 13.1% | 19.9 | 8.0% | 0.5 | -5.2 |
| G477 | Retail sale of other goods in specialised stores | 25.9 | 12.1% | 36.5 | 8.0% | 10.6 | -4.0 |
| G478 | Retail sale via stalls and markets | 26.6 | 12.1% | 21.7 | 9.2% | -4.9 | -2.9 |
| G479 | Retail trade not in stores, stalls or markets | 35.2 | 11.9% | 24.4 | 8.7% | -10.8 | -3.2 |
| H493 | Other passenger land transport | 31.8 | 11.2% | 30.7 | 8.0% | -1.1 | -3.2 |
| H494 | Freight transport by road and relocation services | 22.7 | 12.0% | 43.9 | 7.9% | 21.2 | -4.1 |
| H521 | Storage | 55.0 | 8.0% | 34.6 | 8.1% | -20.4 | 0.1 |
| H522 | Ancillary activities for transport | 31.2 | 10.2% | 40.4 | 6.3% | 9.2 | -3.8 |
| I551 | Hotels and similar accommodation | 30.3 | 10.6% | 47.0 | 8.1% | 16.7 | -2.5 |
| I561 | Restaurants | 45.9 | 11.5% | 41.5 | 8.5% | -4.4 | -3.0 |
| I562 | Catering for events and other catering services | 37.0 | 14.6% | 63.5 | 4.6% | 26.5 | -10.0 |
| I563 | Bars and other beverage service activities | 58.9 | 10.9% | 55.6 | 7.5% | -3.4 | -3.4 |
| J581 | Publishing of books, newspapers, magazines and other publishing activities | 49.3 | 10.9% | 32.1 | 7.8% | -17.3 | -3.2 |
| J611 | Electronic communications activities via cable networks | 23.5 | 12.7% | 10.8 | 6.7% | -12.7 | -5.9 |
| J620 | Information technology service activities | 27.2 | 13.1% | 30.0 | 8.8% | 2.7 | -4.3 |
| J639 | Other information service activities | 78.5 | 11.0% | 34.9 | 4.7% | -43.6 | -6.3 |
| K641 | Monetary intermediation | 16.5 | 13.5% | 10.6 | 9.0% | -5.9 | -4.5 |
| K649 | Other financial intermediation activities, except insurance and pension funding activities | 27.6 | 13.3% | 30.7 | 9.5% | 3.1 | -3.7 |
| K661 | Activities auxiliary to financial intermediation, except insurance and pension funding activities | 14.0 | 17.9% | 10.0 | 10.7% | -4.1 | -7.2 |
| K662 | Activities auxiliary to insurance and pension funding | 47.8 | 11.6% | 33.1 | 7.8% | -14.7 | -3.8 |
| L681 | Buying and selling of own real estate | 14.3 | 12.9% | 61.3 | 6.0% | 47.0 | -6.9 |
| L682 | Renting and operating of own or leased real estate | 32.4 | 12.5% | 45.6 | 5.6% | 13.1 | -7.0 |
| L683 | Real estate activities on a fee or contract basis | 33.5 | 12.6% | 25.6 | 5.1% | -7.9 | -7.6 |
| M691 | Legal activities | 21.3 | 0.0% | 34.0 | 9.0% | 12.8 | 9.0 |
| M692 | Accounting, bookkeeping and auditing activities; tax consultancy | 43.4 | 14.9% | 66.8 | 8.5% | 23.4 | -6.5 |
| M702 | Management consultancy activities | 13.3 | 14.0% | 20.0 | 7.5% | 6.7 | -6.5 |
| M711 | Architectural, engineering and related technical consultancy activities | 25.8 | 15.0% | 22.3 | 9.5% | -3.5 | -5.5 |
| M731 | advertisement | 30.0 | 14.5% | 17.1 | 9.2% | -12.9 | -5.2 |
| M732 | Market research and public opinion polling | 20.7 | 16.5% | 7.7 | 9.6% | -13.0 | -6.9 |
| N771 | Renting and leasing of motor vehicles | 32.2 | 6.7% | 13.7 | 4.1% | -18.5 | -2.6 |
| N772 | Renting and leasing of personal and household goods | 43.1 | 8.0% | 60.2 | 5.3% | 17.2 | -2.6 |
| N773 | Renting and leasing of other machinery, equipment and tangible goods | 107.1 | 12.0% | 53.7 | 8.8% | -53.4 | -3.2 |
| N791 | Activities of travel agencies and tour operators | 37.8 | 15.1% | 76.2 | 7.4% | 38.4 | -7.8 |
| N812 | Cleaning activities | 13.3 | 13.8% | 15.8 | 8.3% | 2.5 | -5.5 |
| N829 | Business support services n.c.a. | 33.4 | 13.2% | 20.2 | 7.1% | -13.2 | -6.1 |
| P853 | Secondary education | 4.5 | 14.0% | 17.4 | 12.9% | 12.9 | -1.1 |
| P855 | Other forms of education | 28.6 | 10.0% | 93.4 | 8.3% | 64.8 | -1.8 |
| Q862 | Outpatient and dental care activities | 54.2 | 11.1% | 61.1 | 8.3% | 7.0 | -2.8 |
| Q869 | Other human health activities | 93.8 | 13.5% | 54.6 | 8.6% | -39.2 | -4.9 |
| R900 | Artistic creation and interpretation activities | 21.4 | 7.5% | 15.7 | 7.6% | -5.6 | 0.1 |
| R931 | Sport activities | 29.0 | 13.6% | 50.3 | 5.3% | 21.3 | -8.3 |
| R932 | Other recreational and fun activities | 23.9 | 12.8% | 30.2 | 6.4% | 6.3 | -6.5 |
| S951 | Repair of computers and communications equipment | 11.2 | 12.4% | 24.7 | 8.5% | 13.5 | -3.9 |
| S960 | Other personal service activities | 30.5 | 11.9% | 48.7 | 8.7% | 18.3 | -3.1 |

*Source: National Bank of Moldova, PwC analysis*

The data of non-banking system (Figure 23) is revealing that the total loan volume was around MDL 2.4bn compared to MDL 25.4bn of private non-financial loans offered by the banking system as of August 2021. The loan maturity of non-bank loans and leasing is around 44 months, which is longer than the maturity of MSME banking loans of 34 months. Nonetheless, the interest rate is significantly higher for non-bank loans, which is oscillating around 17.6% compared to the average interest rate of 7.7% granted by the banking sector to MSMEs. At the same time, the ratio of collateral to loan was 128.8% for non-bank loans.

*Figure 23. Non-banking system has been increasing [%, August 2021]*

| | Loans volume (MDL mn) | Loans maturity (months) | Verification of credit history (% of total) | Loans actual rate (%) | Ratio collateral to loan | Risk category - standard (%) | Risk category - substandard (%) | Risk category - monitored (%) | Risk category - compromised (%) |
|---|---|---|---|---|---|---|---|---|---|
| Nonbank loans | 1549.1 | 44.4 | 93% | 18% | 129% | 56% | 4% | 36% | 1% |
| Financial leasing | 911.9 | 45.2 | 56% | 5% | 147% | 88% | 3% | 7% | 2% |
| **Total** | **2461.0** | **44.7** | **76%** | **13%** | **136%** | **71%** | **4%** | **22%** | **1%** |

*Source: National Bank of Moldova, PwC analysis*

# 4 Current and Future financing needs

This chapter aims to provide understanding into the current and future financing needs of MSMEs in Moldova. To this end, analysis is triangulated from both macro and micro-level data.

In section 4.1 a macro-economic view is taken to estimate the current financing gap in Moldova. This is done through an econometric regression model which references the regional peers, to establish a baseline for MSME financing. Further, the analysis is augmented by a discussion of the regional bank loan-book structure and a look into the indebtedness level of MSMEs in different industries in comparison to Lithuanian and Estonian companies – up to three-digit industry codes. This latter analysis is driven partly by data availability but can also provide an aspirational look into the future, given the more advanced economies of the two Baltic states, though similar in size and population with Moldova.

Sections 4.2 to 4.4 are based on primary data based on the PwC survey, which unfold multiple dimensions, including gender split, urban rural. Once the financing gap is established, the future financing needs of MSMEs are scrutinized, and commentary is provided on the share of companies planning to seek finance into the near future, as well as the amounts envisioned. The perception of financing availability is discussed with reference to the general business environment and the firm-specific factors. Finally, the barriers and success factors in raising financing are discussed for each type of financing instruments.

As mentioned in Chapter 2, the economic sector development is vital in achieving the overall growth objective. Looking back at the past decade, with accent on 2020-2021, significant efforts have been made in order to create a more diversified potential for MSMEs. These small and medium-sized enterprises are instrumental for future development of the country and their ability to survive, adapt to adverse market conditions and even innovate, represent the turning point for coping with new normal. However, they need help, both in term of education and adequate funding, to create value, and returning benefits as: educating people as entrepreneurs and building sustainable growth. Analysing the data from National Statistics Bureau from last years, the MSMEs tend to be more active in the trade and professional services and less active in manufacturing and agriculture.

*Table 5. Concentration of enterprises per industry in the Moldovan economy*

| | 2020 | |
|---|---|---|
| **Enterprises by industry** | **Weight of Enterprises (%)** | **Weight of Employees (%)** |
| Trade | 35.73% | 25.01% |
| Professional, scientific and technical services | 8.70% | 4.02% |
| Manufacturing | 8.45% | 14.31% |
| Agriculture, forestry and fishing | 8.13% | 11.65% |
| Others | 38.98% | 44.99% |
| **Total** | **100%** | **100%** |

*Source: National Statistics Bureau, PwC analysis*

The low share of agricultural enterprises might also reveal a local perspective, where there are also small farming households that are not registered as enterprises and therefore not included in the official statistics. Overall total number of MSMEs are significantly higher when informal SMEs are included, so the financing needs might be even higher.

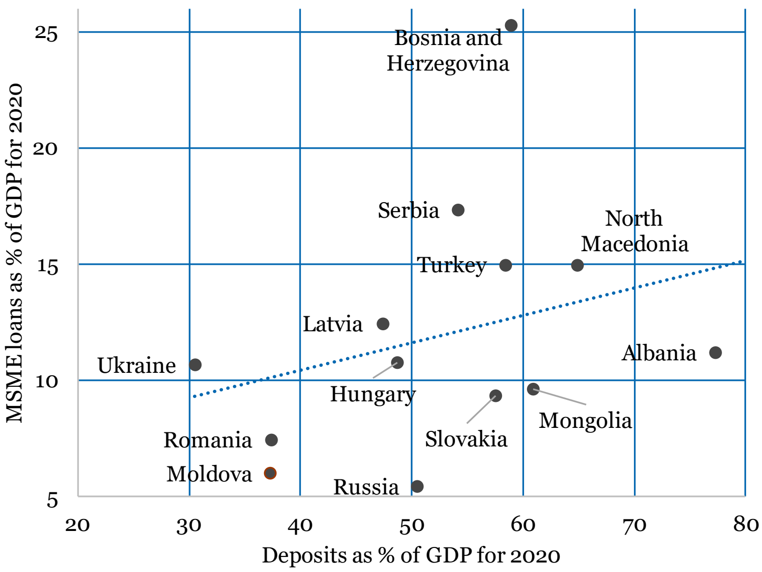
The survey has collected primary data and information from 318 Moldovan enterprises (relevant persons from the company's management) across all economic sectors, the answers **reflecting their perception on specific aspects,** including future **financing needs.**

## 4.1 Current financing gaps

MSME finance gap is the difference between current supply and potential demand. The SME Finance Forum estimated the MSME finance gap for the emerging markets[40]. Consequently, Moldova's MSME finance gap was USD 894mn or 13.5% of GDP on 2015 data according to the report. Their methodology assumes that firms in a developing country have the same willingness and ability to borrow as their counterparts in developed markets. Therefore, the mean of debt-sales in ten developed markets with minimal imperfections (Australia, Canada, Denmark, Germany, Ireland, Israel, New Zealand, Switzerland, the United Kingdom, and the United States) is the benchmark for emerging countries' MSME. Nonetheless, the real finance gap in a developing economy might be significantly different. The economic development cliff between those ten benchmarked countries and other countries such as Moldova is so substantial that a more realistic benchmark is required.

Outstanding MSE loans from commercial banks were 6% of GDP. This is one of the lowest values among 14 regional economies and is significantly inferior compared to Serbia and North Macedonia, for example, where the outstanding MSME loans were 17.3% and 14.9%, respectively (Figure 15). At the same time, the deposits as % of GDP in Moldova were around 37.3% in 2020 being again the second lowest ratio in the region. The depressed levels of both MSME loans and deposits are revealing the limited capacity of the Moldovan banking system to support the economic development in comparison with other countries in the region. Consequently, a more realistic benchmark for Moldova's MSME finance gap would be the regional performance instead of developed markets.

*Figure 24. Deposits versus MSME loans*




*Source: International Monetary Fund (IMF)*

A macro-econometric model was designed to estimate the MSME finance gap in Moldova on a sample of 14 countries (Albania, Bosnia and Herzegovina, Hungary, Latvia, Mongolia, North Macedonia, Poland, Romania, Russia, Serbia, Slovakia, Turkey, Ukraine) using annual data since 2016 of 17 macroeconomic time series. Number of ATMs per 1,000 km2, outstanding deposits with commercial banks (% of GDP), number of insurance corporations per 100,000 adults, general government net lending/borrowing as % GDP, current account balance as % of GDP and total investment as % of GDP can explain around 74% of the variance of MSME loans as % of GDP across 13 regional economies (Figure 24). Therefore, the potential MSME loans as % of GDP should have been around 10.4% in Moldova according to its macroeconomic environment. Consequently, the finance gap is oscillating around 4.9% of GDP or USD 580mn considering the actual MSME loans as % of GDP were 5.5% in 2019 (estimation for 2020 was ignored due to pandemic distortion of data).

[40] MSME FINANCE GAP - ASSESSMENT OF THE SHORTFALLS AND OPPORTUNITIES IN FINANCING MICRO, SMALL AND MEDIUM ENTERPRISES IN EMERGING MARKETS, SME Finance Forum, 2017

*Figure 16. Econometric of model for Moldova's MSME finance gap*

| Indicators | coeficient |
|---|---|
| const | -5.65 |
| Number of ATMs per 1,000 km2 | 0.10 |
| Outstanding deposits with commercial banks (% of GDP) | 0.14 |
| Number of insurance corporations per 100,000 adults | 12.49 |
| General government net lending/borrowing (Percent of GDP) | 0.34 |
| Current account balance (Percent of GDP) | 0.31 |
| Total investment (Percent of GDP) | 0.15 |
| MSME loans as % of GDP for Moldova in 2019 | 5.5 |
| Potential MSME loans as % of GDP for Moldova in 2019 | 10.40 |

*Source: International Monetary Fund (IMF), PwC analysis*

An optimal allocation per economic sector of additional financial resources is needed to cover the funding gap. Figure 25 shows the loans across economic sectors in the region. The private non-financial loans per GDP was 12% at the end of 2020, which is about 7.1 p.p. lower than the average of other 13 countries in the region. Looking at the loans extended to agriculture, Moldova had one of the highest levels in the region. Similarly, the ratio of loans to trade sector to GDP in Moldova is also higher than the regional average suggesting that agriculture and trade sectors are relatively more indebted than similar countries in the region. At the same time, the industry, services and transport and communications sectors absorbed less loans relative to the GDP compared to other countries in the region. This is implying that MSME finance gap can be filled by putting more efforts to extend loans to those sectors. Taking into account the proportionality of the differences between Moldova's values and the regional average, the financing gap of industry, services and transport and communications sectors should be around USD 250mn , USD 200mn and USD 130mn, respectively.

*Figure 25. Loans sectors in the region*

| Country | Private NFC loans/GDP | Loans agriculture (A)/GDP | Loans industry (B&C)/GDP | Loans Construction (F)/GDP | Loans Trade (G)/GDP | Loans services (I, M, R, S) | Loans transport and communications |
|---|---|---|---|---|---|---|---|
| Albania | 19.4 | 0.4 | 3.9 | 3.0 | 7.9 | 3.4 | 0.8 |
| Bulgaria | 24.3 | 2.0 | 7.0 | 2.5 | 7.7 | 2.9 | 2.2 |
| Czech | 15.1 | 1.1 | 5.1 | 0.9 | 3.4 | 2.9 | 1.7 |
| Estonia | 12.7 | 1.9 | 3.3 | 0.5 | 2.6 | 2.1 | 2.4 |
| Georgia | 29.0 | 1.4 | 9.0 | 4.8 | 7.2 | 5.4 | 1.2 |
| Hungary | 17.2 | 1.0 | 4.8 | 1.2 | 3.1 | 5.8 | 1.4 |
| Kazakhstan | 20.8 | 0.3 | 2.8 | 0.9 | 2.4 | 13.4 | 0.9 |
| Lithuania | 6.0 | 1.3 | 1.4 | 0.2 | 1.4 | 0.7 | 1.1 |
| Moldova | 12.0 | 1.9 | 2.9 | 0.3 | 5.1 | 0.9 | 0.8 |
| Russia | 26.7 | 2.1 | 10.7 | 1.3 | 3.4 | 7.1 | 2.0 |
| Serbia | 20.0 | 1.6 | 6.0 | 2.5 | 6.8 | 2.0 | 1.1 |
| Slovakia | 14.5 | 1.0 | 4.5 | 1.4 | 3.7 | 1.8 | 2.1 |
| Ukraine | 13.4 | 1.4 | 4.1 | 0.5 | 6.0 | 0.4 | 1.1 |
| Uzbekistan | 29.7 | 4.5 | 16.5 | 1.2 | 2.3 | 1.0 | 4.3 |
| Average ex-Moldova | 19.1 | 1.5 | 6.1 | 1.6 | 4.5 | 3.8 | 1.7 |
| Differences between Moldova and the rest of the region | -7.2 | 0.3 | -3.2 | -1.3 | 0.7 | -2.8 | -0.9 |
| Funding gap reallocation in % of GDP | 4.9 | | 1.9 | 0.8 | | 1.7 | 0.5 |
| Funding gap reallocation in USD mn as of 2019 | 586.6 | | 229.8 | 91.5 | | 202.2 | 63.1 |

*Source: International Monetary Fund (IMF), PwC analysis*

The scarcity of disaggregated data up to three digits of NACE code is making difficult to estimate the potential financing gap per more specific economic sector. Nonetheless, figure 18 shows the debt to sales ratio of Moldova, Estonia and Lithuania. Therefore, the largest finance gap from this perspective are for the following sectors: Preparation and spinning of textile fibers, Manufacture of pulp, paper and paperboard, Forging, pressing, stamping and roll-forming of metal; powder metallurgy, Repair of fabricated metal products, machinery and equipment and Warehousing and storage.

## *Figure 26. Debt/sales ratio of Moldova, Lithuania and Estonia*

| CEAM | Sector | Bank MSME loans volume in all currencies in 2019 (MDL mn) | Bank MSME loans volume in all currencies in 2020 (MDL mn) | Debt/sales Moldova 2019 (%) | Debt/sales Moldova 2020 (%) | Debt/sales Lithuania 2019 (%) | Debt/sales Lithuania 2020 (%) | Debt/sales Estonia 2019 (%) | Debt/sales in Moldova as % of average in Estonia and Lithuania in 2019 | Funding gap per sector in USD mn adjusted to outstanding loans (2019) | Funding gap per sector in USD mn adjusted to outstanding loans and debt/sales relative to |
|---|---|---|---|---|---|---|---|---|---|---|---|
| A011 | Cultivation of plants from non-permanent crops | 1650.5 | 2091.2 | 1.0 | 1.1 | | | | | | |
| A012 | Cultivation of plants from permanent crops | 420.4 | 579.3 | 2.1 | 2.0 | | | | | | |
| A013 | Cultivation of plants for propagation | 3.2 | 4.7 | 0.7 | 0.7 | | | | | | |
| A014 | Animal husbandry | 182.3 | 231.8 | 1.2 | 1.2 | | | | | | |
| A015 | Mixed farm activities (vegetable growing combined with animal husbandry) | 9.1 | 10.3 | 3.7 | 5.1 | | | | | | |
| A016 | Agricultural ancillary and post - harvest activities | 33.5 | 33.5 | 1.8 | 1.9 | | | | | | |
| A031 | Fishing | | | 2.5 | 4.9 | 0.9 | 0.6 | 0.9 | 2.7 | | |
| A032 | Aquaculture | 0.4 | | 2.2 | 2.8 | 1.2 | 1.9 | | 1.8 | | |
| B061 | Extraction of crude oil | | | 10.4 | 14.0 | 0.6 | 0.9 | | 17.0 | | |
| B081 | Extraction of stone, sand and clay | 7.7 | 20.5 | 0.6 | 0.6 | | | | | 1.4 | |
| C101 | Processing and preserving of meat and production of meat products | 20.5 | 82.2 | 0.4 | 0.4 | 0.3 | 0.3 | 0.2 | 1.6 | 3.7 | 5.2 |
| C102 | Processing and preserving of fish, crustaceans and molluscs | 4.2 | 6.7 | 0.4 | 0.4 | 0.7 | 0.8 | 0.3 | 0.7 | 0.8 | 2.3 |
| C103 | Processing and preserving of fruit and vegetables | 87.3 | 57.5 | 0.8 | 0.8 | 0.5 | 0.4 | 0.3 | 1.9 | 15.6 | 18.6 |
| C104 | Manufacture of vegetable and animal oils and fats | 24.5 | 27.1 | 1.3 | 1.6 | 0.6 | 0.4 | 0.2 | 3.2 | 4.4 | 3.1 |
| C105 | Manufacture of dairy products | 30.2 | 26.7 | 0.5 | 0.4 | 0.3 | 0.3 | 0.3 | 1.5 | 5.4 | 8.1 |
| C106 | Manufacture of grain mill products, starches and starch products | 21.0 | 20.1 | 1.4 | 1.3 | 0.6 | 0.5 | 0.6 | 2.4 | 3.8 | 3.5 |
| C107 | Manufacture of bakery and farinaceous products | 55.7 | 90.5 | 0.4 | 0.4 | 0.3 | 0.4 | 0.2 | 1.5 | 9.9 | 14.9 |
| C108 | Manufacture of other food products | 22.2 | 42.1 | 1.0 | 0.8 | 0.8 | 0.7 | 0.2 | 2.2 | 4.0 | 4.2 |
| C109 | Manufacture of prepared animal feeds | 0.6 | 0.4 | 0.5 | 0.4 | 0.3 | 0.3 | 0.4 | 1.4 | 0.1 | 0.2 |
| C110 | Manufacture of beverages | 381.2 | 306.1 | 1.2 | 1.3 | 0.5 | 0.5 | | 2.5 | 68.1 | 62.3 |
| C120 | Manufacture of tobacco products | 2.1 | 11.6 | 1.7 | 2.1 | | | | | 0.4 | |
| C131 | Preparation and spinning of textile fibres | | | 2.5 | 2.2 | 0.6 | 0.7 | 0.1 | 7.9 | | |
| C132 | Weaving of textiles | | | 0.4 | 0.4 | 0.2 | 0.3 | | 2.1 | | |
| C133 | Finishing of textiles | | | 0.1 | 0.6 | 0.2 | 0.4 | | 0.6 | | |
| C139 | Manufacture of other textiles | 6.0 | 11.6 | 0.4 | 0.4 | 0.3 | 0.3 | 0.2 | 1.6 | 1.1 | 1.6 |
| C141 | Manufacture of wearing apparel, except fur apparel | 76.4 | 84.0 | 0.5 | 0.7 | 0.3 | 0.3 | 0.1 | 2.5 | 13.7 | 12.3 |
| C142 | Manufacture of articles of fur | | | 2.4 | 2.7 | 1.3 | 1.6 | 0.1 | 3.4 | | |
| C143 | Manufacture of knitted and crocheted apparel | 4.8 | 2.3 | 0.6 | 0.7 | 0.3 | 0.2 | 0.2 | 2.5 | 0.9 | 0.8 |
| C151 | Tanning and dressing of leather; manufacture of luggage, handbags, saddlery and harness; dressing and dyeing of fur | 0.2 | 0.5 | 0.3 | 0.2 | 0.3 | 0.8 | 0.1 | 1.5 | 0.0 | 0.1 |
| C152 | Manufacture of footwear | 13.2 | 9.1 | 1.2 | 1.3 | 0.3 | 0.2 | 0.0 | 6.9 | 2.4 | 0.8 |
| C161 | Sawmilling and planing of wood | 0.3 | | 0.9 | 1.1 | 0.3 | 0.4 | 0.2 | 3.2 | 0.1 | 0.0 |
| C162 | Manufacture of products of wood, cork, straw and plaiting materials | 53.8 | 80.9 | 0.9 | 1.1 | 0.4 | 0.4 | 0.3 | 2.7 | 9.6 | 8.0 |
| C171 | Manufacture of pulp, paper and paperboard | 46.8 | 40.4 | 1.9 | 1.4 | 0.3 | 0.3 | 0.5 | 5.1 | 8.4 | 3.7 |
| C172 | Manufacture of articles of paper and paperboard | 40.3 | 37.2 | 0.4 | 0.5 | 0.3 | 0.3 | 0.2 | 1.8 | 7.2 | 9.1 |
| C181 | Printing and printing service activities | 22.5 | 36.2 | 0.5 | 0.6 | | | | | 4.0 | |
| C182 | Reproduction of recordings | | | 0.1 | 0.2 | | | | | | |
| C192 | Manufacture of crude oil products | | | 1.4 | 0.8 | | | | | | |
| C201 | Manufacture of basic chemicals, fertilizers and nitrogen products; manufacture of plastics and synthetic rubber in primary forms | 16.2 | 15.1 | 0.4 | 0.6 | | | 0.1 | 4.3 | 2.9 | 1.5 |
| C202 | Manufacture of pesticides and other agrochemicals | | | 27.3 | 0.5 | | 0.1 | | | | |
| C203 | Manufacture of paints, varnishes, printing inks and putties | | | 0.3 | 0.3 | 0.5 | 0.7 | 0.2 | 0.9 | | |
| C204 | Manufacture of soap, detergents and care products, cosmetics and perfumery | 13.4 | 14.8 | 1.2 | 0.8 | 0.5 | 0.4 | 0.2 | 3.9 | 2.4 | 1.4 |
| C205 | Manufacture of other chemicals | 5.4 | 4.1 | 1.1 | 1.0 | | | 0.1 | 15.3 | 1.0 | 0.1 |
| C206 | Manufacture of man-made fibers | | | 1.1 | 1.6 | | 0.3 | | | | |
| C211 | Manufacture of basic pharmaceutical products | 6.2 | 11.1 | 0.7 | 0.6 | | | | | 1.1 | |
| C212 | Manufacture of pharmaceutical preparations | 20.9 | 21.0 | 1.9 | 2.1 | 0.4 | 0.3 | | 4.9 | 3.7 | 1.7 |
| C221 | Manufacture of rubber articles | 1.6 | 1.2 | 0.5 | 0.6 | 0.5 | | 0.1 | 1.7 | 0.3 | 0.4 |
| C222 | Manufacture of plastic products | 39.9 | 37.6 | 0.4 | 0.4 | 0.3 | | 0.2 | 1.7 | 7.1 | 9.4 |
| C231 | Manufacture of glass and glass products | 1.6 | 3.0 | 0.7 | 0.8 | 0.3 | 0.3 | 0.1 | 3.9 | 0.3 | 0.2 |

| CEAM | Sector | Bank MSME loans volume in all currencies in 2019 (MDL mn) | Bank MSME loans volume in all currencies in 2020 (MDL mn) | Debt/sales Moldova 2019 (%) | Debt/sales Moldova 2020 (%) | Debt/sales Lithuania 2019 (%) | Debt/sales Lithuania 2020 (%) | Debt/sales Estonia 2019 (%) | Debt/sales in Moldova as % of average in Estonia and Lithuania in 2019 | Funding gap per sector in USD mn adjusted to outstanding loans (2019) | Funding gap per sector in USD mn adjusted to outstanding loans and debt/sales relative to |
|---|---|---|---|---|---|---|---|---|---|---|---|
| C232 | Manufacture of refractory products | | | 1.7 | | | 0.6 | | | | |
| C233 | Manufacture of clay building materials | 5.3 | 2.9 | 3.0 | 3.1 | 1.8 | | | 1.7 | 0.9 | 1.3 |
| C234 | Manufacture of other porcelain and ceramic products | | | 15.7 | 24.6 | 0.3 | 0.6 | 0.1 | 72.3 | | |
| C235 | Manufacture of cement, lime and plaster | | | 0.2 | 0.2 | | | | | | |
| C236 | Manufacture of articles of concrete, cement and plaster | 37.3 | 53.9 | 0.5 | 0.5 | 0.3 | 0.5 | 0.2 | 2.1 | 6.7 | 7.3 |
| C237 | Cutting, shaping and finishing of stone | 11.9 | 11.2 | 1.0 | 1.2 | 0.7 | 1.8 | 0.3 | 2.0 | 2.1 | 2.4 |
| C239 | Manufacture of abrasive products and non-metallic mineral products n.e.c. | 0.9 | 1.4 | 0.3 | 0.4 | 0.2 | 0.1 | 0.0 | 3.1 | 0.2 | 0.1 |
| C243 | Manufacture of other products of first processing of steel | 0.5 | 2.3 | 0.4 | 0.3 | 0.5 | 0.6 | 0.1 | 1.4 | 0.1 | 0.2 |
| C245 | Casting of metals | | | 0.6 | 0.7 | 0.2 | 0.2 | | 2.7 | | |
| C251 | Manufacture of structural metal products | 24.9 | 28.6 | 0.6 | 0.4 | 0.4 | 0.4 | 0.1 | 2.6 | 4.5 | 3.9 |
| C252 | Manufacture of tanks, reservoirs and containers of metal | 1.5 | 1.4 | 1.1 | 0.7 | | | 0.1 | 13.1 | 0.3 | 0.0 |
| C254 | Manufacture of weapons and ammunition | | | 0.9 | | | 1.1 | | | | |
| C255 | Forging, pressing, stamping and roll-forming of metal; powder metallurgy | 7.9 | 15.0 | 1.1 | 1.6 | 0.3 | | 0.1 | 5.5 | 1.4 | 0.6 |
| C256 | Treatment and coating of metals; machining | 4.6 | 5.1 | 0.7 | 0.9 | 0.3 | 0.4 | 0.2 | 2.6 | 0.8 | 0.7 |
| C257 | Manufacture of cutlery, tools and general hardware | 0.9 | 0.6 | 0.5 | 0.6 | 0.4 | 0.5 | 0.1 | 1.7 | 0.2 | 0.2 |
| C259 | Manufacture of other fabricated metal products | 27.7 | 29.9 | 0.5 | 0.3 | 0.5 | 0.4 | 0.2 | 1.4 | 4.9 | 7.9 |
| C262 | Manufacture of computers and peripheral equipment | | | 0.1 | | | | 0.1 | 1.2 | | |
| C263 | Manufacture of communication equipment | | | 0.6 | 0.1 | | | 0.1 | 6.1 | | |
| C264 | Manufacture of consumer electronics | | | 0.3 | 0.4 | | | 0.2 | 1.1 | | |
| C265 | Manufacture of instruments and appliances for measuring, testing and navigation; watches and clocks | | | 0.5 | 0.7 | 0.3 | 0.3 | 0.1 | 2.7 | | |
| C267 | Manufacture of optical instruments and photographic equipment | | | 0.1 | 4.3 | 0.2 | 0.4 | | 0.8 | | |
| C271 | Manufacture of electric motors, generators, transformers and electricity distribution and control apparatus | 0.2 | | 0.4 | 0.4 | 0.3 | 0.3 | 0.1 | 1.9 | 0.0 | 0.0 |
| C273 | Manufacture of wiring and wiring devices | 3.5 | 11.8 | 0.6 | 0.9 | | | 0.0 | | 0.6 | |
| C274 | Manufacture of electric lighting equipment | 2.9 | 2.7 | 0.6 | 0.6 | 0.2 | 0.2 | 0.1 | 3.6 | 0.5 | 0.3 |
| C275 | Manufacture of domestic appliances | | | 1.5 | 1.9 | | | 0.0 | 43.2 | | |
| C279 | Manufacture of other electrical equipment | 0.3 | | 0.2 | 0.3 | 0.2 | 0.3 | 0.1 | 1.6 | 0.1 | 0.1 |
| C281 | Manufacture of general purpose machinery | 5.8 | 5.4 | 0.8 | 1.7 | 0.4 | 0.7 | | 1.8 | 1.0 | 1.3 |
| C282 | Manufacture of other general purpose machinery and equipment | 4.1 | 3.2 | 0.3 | 0.4 | 0.3 | | 0.2 | 1.4 | 0.7 | 1.2 |
| C283 | Manufacture of machinery and equipment for agriculture and forestry | 12.4 | 4.5 | 0.4 | 0.8 | 0.5 | 0.5 | 0.1 | 1.1 | 2.2 | 4.4 |
| C284 | Manufacture of metalworking machinery and machine tools | | | 0.2 | 0.5 | 0.3 | | | 0.7 | | |
| C289 | Manufacture of other special purpose machinery and equipment | | 3.0 | 1.2 | 2.6 | 0.5 | 0.4 | 0.1 | 4.1 | | |
| C293 | Manufacture of parts and accessories for motor vehicles and their engines | 4.8 | | 0.6 | 0.7 | | | 0.0 | 20.3 | 0.9 | 0.1 |
| C302 | Manufacture of rolling stock | | | 2.2 | 2.1 | | | | | | |
| C309 | Manufacture of other transport equipment n.c.a. | | | 0.4 | 0.2 | 0.2 | 0.3 | | 1.9 | | |
| C310 | Manufacture of furniture | 69.4 | 84.9 | 0.5 | 0.5 | 0.4 | 0.5 | | 1.3 | 12.4 | 22.1 |
| C321 | Manufacture of jewellery, bijouterie and related articles | | | 3.5 | 1.9 | 0.6 | 0.6 | 0.3 | 7.7 | | |
| C323 | Manufacture of sports goods | | | 0.8 | 0.9 | | | 0.0 | 19.6 | | |
| C324 | Manufacture of games and toys | | | 0.6 | 0.2 | 0.3 | 0.4 | | 1.8 | | |
| C325 | Manufacture of medical and dental instruments and supplies | | | 0.2 | 0.4 | 0.9 | 0.8 | 0.1 | 0.5 | | |
| C329 | Manufacturing n.e.c. | 1.3 | 1.5 | 0.5 | 0.8 | 0.6 | 0.6 | 0.1 | 1.3 | 0.2 | 0.4 |
| C331 | Repair of metal articles, machinery and equipment | 14.9 | 18.2 | 1.7 | 1.9 | 0.4 | 0.4 | 0.1 | 6.5 | 2.7 | 0.9 |
| C332 | Installation of industrial machinery and equipment | 15.5 | 15.7 | 0.9 | 0.3 | 0.3 | 0.3 | 0.0 | 5.6 | 2.8 | 1.1 |
| F411 | Real estate development (promotion) | 0.8 | | 4.3 | 3.1 | 1.9 | 1.6 | 1.6 | 2.5 | 0.2 | 0.5 |
| F412 | Construction work for residential and non-residential buildings | 167.5 | 165.6 | 1.6 | 1.5 | 0.4 | 0.4 | 0.1 | 6.8 | 54.2 | 36.1 |
| F421 | Construction of roads and railways | 11.5 | 12.3 | 0.5 | 0.6 | 0.4 | 0.4 | 0.1 | 2.0 | 3.7 | 8.4 |
| F422 | Construction of utility projects | 7.0 | 6.5 | 0.6 | 0.6 | 0.3 | 0.3 | 0.1 | 3.1 | 2.3 | 3.4 |
| F429 | Construction of other civil engineering projects | 24.3 | 48.2 | 0.7 | 1.0 | 0.3 | 0.4 | 0.1 | 3.4 | 7.9 | 10.4 |
| F431 | Demolition and site preparation work | 2.4 | 3.1 | 0.6 | 0.8 | 0.3 | 0.3 | 0.2 | 2.2 | 0.8 | 1.6 |
| F432 | Electrical and sanitary installation works and other construction installation works | 32.2 | 53.8 | 0.4 | 0.5 | 0.3 | 0.4 | 0.0 | 2.4 | 10.4 | 19.6 |
| F433 | Finishing work | 21.1 | 40.6 | 0.6 | 0.6 | 0.3 | 0.3 | 0.1 | 3.6 | 6.8 | 8.5 |
| F439 | Other special construction works | 15.9 | 33.7 | 1.5 | 2.2 | 0.3 | 0.3 | 0.1 | 7.7 | 5.2 | 3.0 |
| G451 | Trade in motor vehicles | 12.8 | 17.8 | 0.2 | 0.2 | 0.2 | 0.3 | 0.1 | 1.6 | | |
| G452 | Maintaining and repairing vehicles | 42.9 | 41.3 | 0.8 | 0.9 | 0.4 | 0.5 | 0.2 | 2.7 | | |
| G453 | Sale of motor vehicle parts and accessories | 115.9 | 133.2 | 0.5 | 0.5 | 0.3 | 0.3 | 0.1 | 2.6 | | |
| G454 | Trade in motorcycles, parts and accessories; maintenance and repair of motorcycles | 6.8 | 13.3 | 0.4 | 0.6 | 0.5 | 0.4 | 0.1 | 1.6 | | |
| G461 | Wholesale trade activities | 71.6 | 103.7 | 0.8 | 1.5 | 0.4 | 0.4 | 0.2 | 2.9 | | |
| G462 | Wholesale of raw agricultural products and live animals | 219.3 | 211.3 | 0.9 | 1.0 | 0.2 | 0.2 | 0.1 | 5.2 | | |

| CEAM | Sector | Bank MSME loans volume in all currencies in 2019 (MDL mn) | Bank MSME loans volume in all currencies in 2020 (MDL mn) | Debt/sales Moldova 2019 (%) | Debt/sales Moldova 2020 (%) | Debt/sales Lithuania 2019 (%) | Debt/sales Lithuania 2020 (%) | Debt/sales Estonia 2019 (%) | Debt/sales in Moldova as % of average in Estonia and Lithuania in 2019 | Funding gap per sector in USD mn adjusted to outstanding loans (2019) | Funding gap per sector in USD mn adjusted to outstanding loans and debt/sales relative to |
|---|---|---|---|---|---|---|---|---|---|---|---|
| G463 | Wholesale of food, beverages and tobacco | 255.4 | 295.2 | 0.3 | 0.4 | 0.2 | 0.2 | 0.1 | 2.1 | | |
| G464 | Wholesale of household goods | 189.2 | 205.9 | 0.5 | 0.5 | 0.3 | 0.3 | 0.1 | 3.1 | | |
| G465 | Wholesale of computer and telecommunications equipment | 23.6 | 20.7 | 0.6 | 0.6 | 0.2 | 0.2 | 0.0 | 5.2 | | |
| G466 | Wholesale of other machinery, equipment and supplies | 52.8 | 61.6 | 0.4 | 0.5 | 0.3 | 0.3 | 0.1 | 1.8 | | |
| G467 | Specialized wholesale of other products | 400.4 | 441.2 | 0.3 | 0.4 | 0.3 | 0.3 | 0.1 | 1.8 | | |
| G469 | Non-specialized wholesale trade | 121.1 | 144.0 | 0.5 | 0.4 | 0.3 | 0.4 | 0.1 | 2.3 | | |
| G471 | Retail sale in non-specialised stores | 196.6 | 193.7 | 0.3 | 0.3 | 0.4 | 0.4 | 0.1 | 1.3 | | |
| G472 | Retail sale of food, beverages and tobacco in specialised stores | 47.9 | 62.8 | 0.5 | 0.5 | 0.3 | 0.3 | 0.1 | 2.4 | | |
| G473 | Retail sale of automotive fuel in specialised stores | 60.6 | 43.6 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 2.0 | | |
| G474 | Retail sale of information and communication equipment in specialised stores | 13.8 | 12.6 | 0.5 | 0.4 | 0.2 | 0.2 | 0.2 | 2.8 | | |
| G475 | Retail sale of other household equipment in specialised stores | 175.2 | 184.5 | 0.5 | 0.5 | 0.3 | 0.3 | 0.1 | 2.3 | | |
| G476 | Retail sale of cultural and recreation goods in specialised stores | 34.9 | 32.2 | 0.5 | 0.6 | 0.4 | 0.4 | 0.1 | 2.0 | | |
| G477 | Retail sale of other goods in specialised stores | 153.7 | 178.8 | 0.4 | 0.4 | 0.4 | 0.3 | 0.1 | 1.9 | | |
| G478 | Retail sale via stalls and markets | 5.0 | 4.8 | 0.6 | 0.7 | 0.3 | 0.4 | 0.1 | 3.1 | | |
| G479 | Retail trade not in stores, stalls or markets | 15.0 | 20.0 | 0.4 | 0.4 | 0.3 | 0.2 | 0.2 | 1.8 | | |
| H492 | Freight transport by rail | | | 0.4 | 1.2 | | | | | | |
| H493 | Other passenger land transport | 45.7 | 49.7 | 0.3 | 0.4 | 0.7 | 1.2 | 0.5 | 0.5 | 5.3 | 13.8 |
| H494 | Freight transport by road and relocation services | 322.5 | 362.1 | 0.4 | 0.5 | 0.4 | 0.4 | 0.2 | 1.4 | 37.4 | 38.0 |
| H495 | Pipeline transport | | | 2.3 | 1.2 | | | | | | |
| H502 | Sea and coastal freight transport | | | 0.1 | 0.2 | 0.3 | 0.3 | | 0.2 | | |
| H504 | Inland waterway transport | | 0.4 | 0.4 | 0.3 | | | | | | |
| H511 | Air passenger transport | | | 0.5 | 1.4 | | | | | | |
| H512 | Air freight and space transportation | | | 0.4 | 0.2 | | | | | | |
| H521 | Storage | 59.0 | 57.2 | 2.1 | 5.9 | 0.5 | 0.6 | 0.4 | 4.3 | 6.8 | 2.2 |
| H522 | Ancillary activities for transport | 38.0 | 55.0 | 1.0 | 1.1 | 0.4 | 0.4 | 0.4 | 2.4 | 4.4 | 2.6 |
| H531 | Postal activities carried out under the obligation of universal service | | | 0.5 | 0.6 | | | | | | |
| H532 | Other postal and courier activities | 1.2 | 0.5 | 0.4 | 0.3 | | | 0.0 | 7.8 | 0.1 | 0.0 |
| I551 | Hotels and similar accommodation | 17.6 | 11.4 | 2.3 | 8.4 | 1.4 | 3.2 | 0.7 | 2.2 | 4.0 | 3.1 |
| I552 | Holiday and other short-stay accommodation | 3.9 | 2.8 | 0.9 | 3.7 | 1.8 | 2.9 | 1.7 | 0.5 | 0.9 | 3.0 |
| I553 | Camping grounds, recreational vehicle parks and trailer parks | | | 7.3 | 16.2 | 0.8 | 0.4 | | 9.7 | | |
| I559 | Other accommodation | 0.4 | 0.6 | 1.5 | 9.2 | 1.3 | 1.4 | | 1.2 | 0.1 | 0.1 |
| I561 | Restaurants | 59.8 | 59.0 | 1.0 | 1.2 | 0.4 | 0.6 | 0.1 | 3.6 | 13.6 | 6.4 |
| I562 | Catering for events and other catering services | 12.1 | 12.8 | 0.4 | 0.8 | 0.2 | 0.3 | 0.1 | 2.5 | 2.8 | 1.9 |
| I563 | Bars and other beverage service activities | 43.1 | 40.7 | 1.1 | 1.8 | 0.4 | 0.5 | 0.1 | 5.1 | 9.8 | 3.2 |
| J581 | Publishing of books, newspapers, magazines and other publishing activities | 15.9 | 11.6 | 0.9 | 0.7 | 0.4 | 0.3 | 0.2 | 3.3 | 1.8 | 0.8 |
| J582 | Software editing activities | | | 0.2 | 0.2 | 0.3 | 0.1 | 0.2 | 0.8 | | |
| J591 | Motion picture, video and television production activities | 32.9 | 32.1 | 1.1 | 2.7 | 0.3 | 0.3 | 0.2 | 4.9 | 3.8 | 1.1 |
| J592 | Audio recording activities and music editing activities | | | 47.6 | | 0.3 | 0.4 | 0.5 | 119.1 | | |
| J601 | Radio broadcasting activities | | | 1.3 | 1.6 | 0.8 | 0.7 | | 1.6 | | |
| J602 | Television program production and broadcasting activities | | | 3.8 | 5.3 | 0.2 | 0.3 | | 16.1 | | |
| J611 | Electronic communications activities via cable networks | 1.0 | 2.1 | 0.8 | 0.7 | 0.8 | 0.8 | | 0.9 | 0.1 | 0.2 |
| J612 | Electronic communications activities via wireless networks | 0.5 | | 0.6 | 0.5 | 0.7 | | 0.3 | 1.3 | 0.1 | 0.1 |
| J613 | Satellite communications activities | 0.1 | | 3.6 | 1.8 | 2.4 | | | 1.5 | 0.0 | 0.0 |
| J619 | Other electronic communications activities | 0.1 | | 4.0 | 3.6 | 0.2 | | 0.1 | 23.3 | 0.0 | 0.0 |
| J620 | Information technology service activities | 3.5 | 2.9 | 0.2 | 0.2 | 0.3 | 0.3 | | 0.8 | 0.4 | 0.7 |
| J631 | Data processing, hosting and related activities; web portals | 0.4 | | 0.4 | 0.5 | 0.4 | 0.4 | 0.3 | 1.3 | 0.0 | 0.1 |
| J639 | Other information service activities | 23.5 | 23.8 | 0.9 | 1.3 | 1.6 | 2.3 | 0.2 | 1.1 | 2.7 | 3.5 |
| M691 | Legal activities | 4.0 | 5.6 | 0.8 | 0.9 | 0.7 | 0.7 | 0.1 | 2.1 | 0.9 | 0.7 |
| M692 | Accounting, bookkeeping and auditing activities; tax consultancy | 4.0 | 7.0 | 1.7 | 1.7 | 0.4 | 0.4 | 0.3 | 5.1 | 0.9 | 0.3 |
| M701 | Activities of centralized administrative departments | 0.3 | | 0.2 | 0.3 | 6.2 | 7.0 | 10.4 | 0.0 | 0.1 | 5.4 |
| M702 | Management consultancy activities | 67.0 | 74.5 | 2.4 | 2.7 | 3.7 | 3.8 | 0.9 | 1.0 | 15.2 | 24.9 |
| M711 | Architectural, engineering and related technical consultancy activities | 2.0 | 0.8 | 2.3 | 2.2 | 0.5 | 0.5 | 0.2 | 6.8 | 0.4 | 0.1 |
| M712 | Testing and technical analysis activities | 2.4 | 5.8 | 0.6 | 0.7 | 0.2 | 0.2 | 0.1 | 3.7 | 0.5 | 0.2 |
| M721 | Research and development in natural sciences and engineering | 0.6 | | 1.6 | 1.9 | 0.8 | 1.0 | 0.3 | 2.7 | 0.1 | 0.1 |
| M722 | Research and development in social sciences and humanities | | | 0.4 | 0.8 | 0.2 | 0.3 | 0.0 | 4.2 | | |

| CEAM | Sector | Bank MSME loans volume in all currencies in 2019 (MDL mn) | Bank MSME loans volume in all currencies in 2020 (MDL mn) | Debt/sales Moldova 2019 (%) | Debt/sales Moldova 2020 (%) | Debt/sales Lithuania 2019 (%) | Debt/sales Lithuania 2020 (%) | Debt/sales Estonia 2019 (%) | Debt/sales in Moldova as % of average in Estonia and Lithuania in 2019 | Funding gap per sector in USD mn adjusted to outstanding loans (2019) | Funding gap per sector in USD mn adjusted to outstanding loans and debt/sales relative to |
|---|---|---|---|---|---|---|---|---|---|---|---|
| M731 | advertisement | 8.1 | 10.7 | 0.5 | 0.5 | 0.3 | 0.3 | 0.1 | 2.6 | 1.9 | 1.2 |
| M732 | Market research and public opinion polling | 6.1 | 5.1 | 1.6 | 1.9 | 0.2 | 0.2 | 0.1 | 14.3 | 1.4 | 0.2 |
| M741 | Specialized design activities | 0.2 | | 0.7 | 0.8 | 0.3 | 0.6 | 0.2 | 2.8 | 0.0 | 0.0 |
| M742 | Photographic activities | | | 1.1 | 1.2 | 0.5 | 0.6 | | 2.1 | | |
| M743 | Written and oral translation activities (interpreters) | | | 0.3 | 0.6 | 0.2 | 0.3 | | 1.4 | | |
| M749 | Other professional, scientific and technical activities n.c.a. | 2.4 | 3.2 | 1.0 | 0.7 | 0.4 | 0.4 | 0.4 | 2.7 | 0.5 | 0.3 |
| M750 | Veterinary activities | | | 0.4 | 0.2 | 0.3 | 0.3 | | 1.3 | | |
| R900 | Artistic creation and interpretation activities | 12.1 | 11.8 | 1.1 | 1.9 | 0.4 | 0.6 | | 2.8 | 2.8 | 1.6 |
| R910 | Activities of libraries, archives, museums and other cultural activities | 0.6 | 0.5 | 2.8 | 5.0 | 0.6 | 0.4 | | 4.5 | 0.1 | 0.0 |
| R920 | Gambling and betting activities | | | 0.2 | 0.2 | 0.0 | 0.0 | | 5.5 | | |
| R931 | Sport activities | 19.9 | 34.3 | 1.2 | 1.8 | 1.2 | 1.2 | | 1.0 | 4.5 | 7.3 |
| R932 | Other recreational and fun activities | 3.4 | 4.3 | 0.9 | 1.9 | 0.8 | 0.9 | | 1.3 | 0.8 | 1.0 |
| S951 | Repair of computers and communications equipment | 0.9 | 0.6 | 0.3 | 0.4 | 0.3 | 0.2 | 0.1 | 1.5 | 0.2 | 0.2 |
| S952 | Repair of personal and household goods | 0.4 | | 0.8 | 1.0 | 0.4 | 0.4 | 0.1 | 2.9 | 0.1 | 0.0 |
| S960 | Other personal service activities | 6.2 | 9.7 | 1.0 | 1.4 | 0.6 | 0.6 | | 1.5 | 1.4 | 1.6 |

*Source: International Monetary Fund (IMF), PwC analysis*

For the Transnistrian region, Berlin Economics estimates the ratio of MSME loans to GDP at 6.5%. As such, it is nearly identical with right bank Moldova, but below that of Ukraine. Based on this comparison, they assume that the percentage of SME loans to GDP (demand) in TN region would need to grow from 6.8% to at least 12% (by 78%) just to reach the level of Ukraine. This is still a conservative assumption, considering that Ukraine itself also has a SME financing gap estimated at 32% of demand. Based on a large set of assumptions, Berlin Economics estimates a demand for financing by SMEs in Transnistria of EUR 104 m with most of potential demand coming from smaller players. Of this, EUR 81.5 m is the total demand for debt, while the demand for equity is EUR 22.6 m.

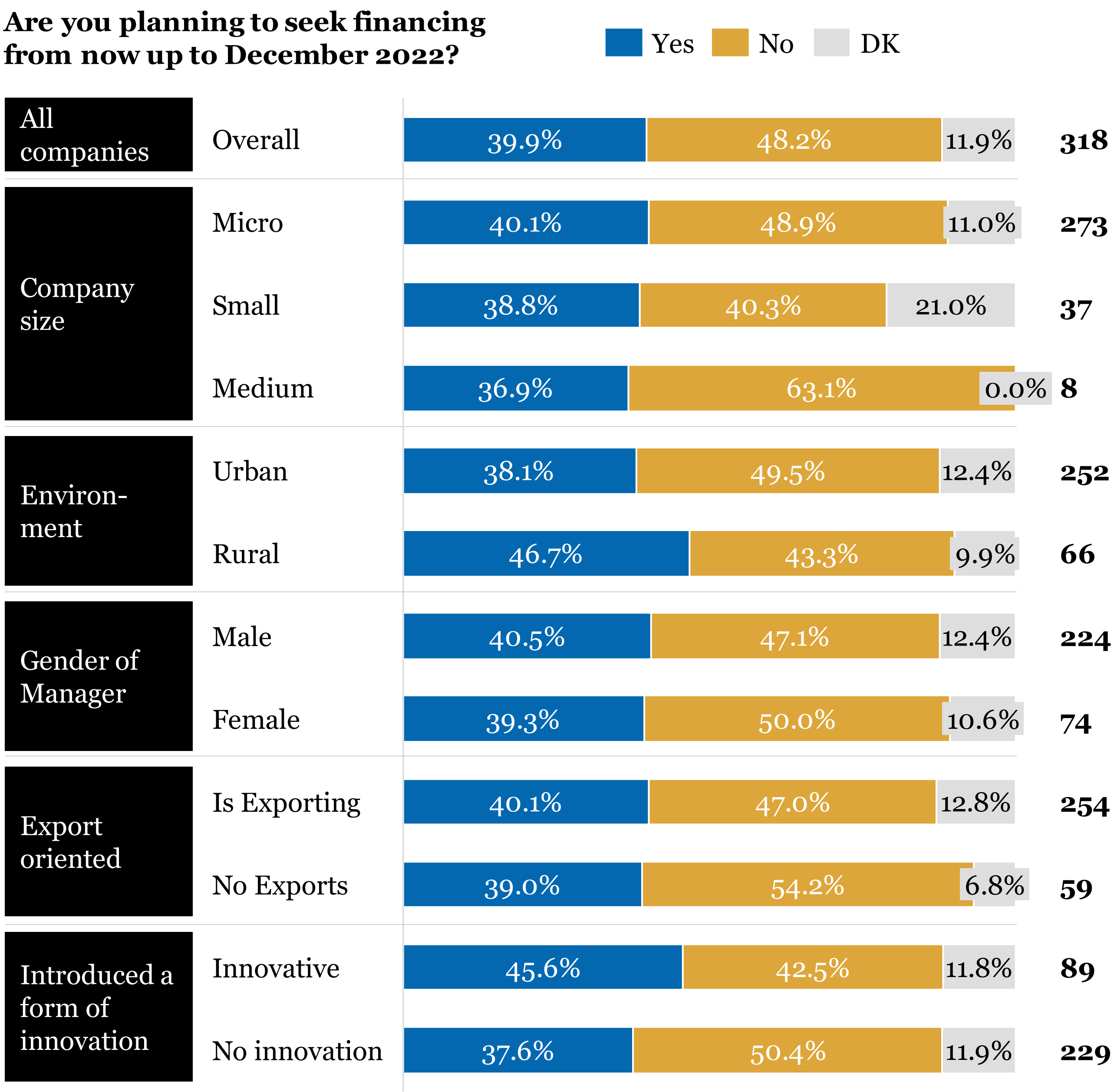
In terms of supply, EUR 65 m debt is provided mostly by loans from local banks and to some extent by the so-called ‘state reserve fund’. Equity supply represents businesses’ own equity which is estimated at EUR 18m. This is derived from accumulated profits in 2016 2020 (PRB 1.8 bn), if 20% of them were not distributed. Therefore, total financing gap is estimated at EUR 21 m (3 % of GDP), or 21% of the demand by SMEs, for the Transnistrian region. The debt financing gap accounts for 21% of the demand or EUR 17 m. The equity financing gap of 21% or EUR 5 m most likely will be covered by own equity but this also represents an opportunity for expanding sources of external financing.  The financing gap for TN region is lower than in other economies in the region due to higher share of industries with low added value such as trade and catering as well as by lower financial inclusion of smaller companies and private entrepreneurs.

## 4.2 Financing needs and future uses

Across the whole sample, around 2 in 5 companies (39.9%) declared they are planning to seek finance in the next year (Figure 27). The intention to seek resources decreases with firm size, as more micro companies (40.1%) seek finance versus small (38.8%) and medium companies (36.9%). This may illustrate the stronger financial position that comes with scale, allowing larger companies to finance somewhat on a cashflow basis.

The highest intention to seek financing of all subgroups was among business operating in a rural environment (46.7%). MSMEs that featured innovative element in their business model also declared a higher intention (45.6%) to seek finance than non-innovative ones (37.6%), thereby potentially reflecting a higher tolerance for incurring debt at the benefit of accelerating their go to market strategy.

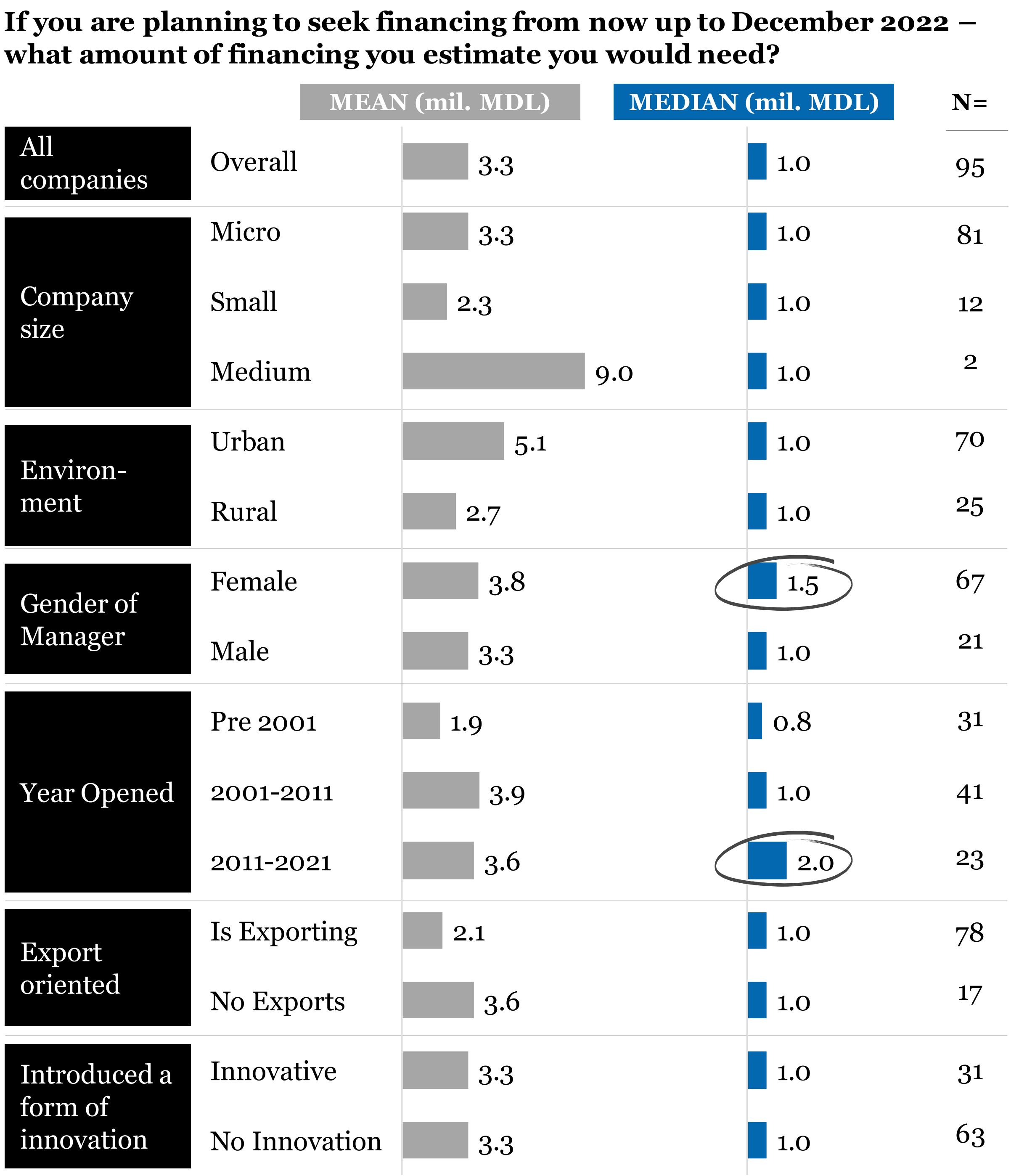
*Figure 27. Intention to seek finance in the next year*




*Source: PwC MSME survey*

In terms of the amount expected to be required (Figure 28), the sample mean was 3.3 mil. MDL and the median 1.0 mil. MDL. Interestingly, MSMEs with female managers show a propensity for a higher amount (median 1.5 mil MDL versus 1.0 mil. MDL for male managers), which may indicate a more assertive attitude in procuring external resources, though the company industry must also be factored in[41].

*Figure 28. Amount of financing amount expected to be demanded in the next year*




*Source: PwC MSME survey*

[41] In the PwC sample, female owned MSMEs are over-represented in the following sectors: Administrative and Support activities, Real Estate, and Finance. Male-owned MSMEs are over-represented in Agriculture and Construction. Overrepresentation in this context refers to a concentration of one gender in one sector that is at least 2x the other gender in terms of population distribution.

Also, there is an increasing trend in the median amount planned to be requested (but not in the mean amount) depending on the age of the company. Companies opened in the last ten years (2011-2021) estimate they will ask a median of 2.0 mil MDL, while those opened twenty years ago (2001-2011) estimate 1.0 mil MDL – and the oldest companies opened pre-2001 estimate 0.8 mil MDL. This can be explained partly by company size – as relatively to the sample total – there are more medium companies that were launched recently rather than ones that were launched more than twenty years ago – thereby raising the median. Only 11.1% of medium companies were opened pre-2001 – 31.5% of micro-companies were (these operated mostly in Trade and Agriculture). This result however also highlights the importance of the business model dynamics, as most companies scale up with time, thus requiring more capital in their early years.

Companies that are oriented towards exports and those that are not – did not display a statistically significant difference in the amounts to be requested. Similarly with companies having an innovating element to their business model or not.

From an industry perspective (Table 6), Agriculture was by far the industry with the highest declared intention to seek funding by December 2022 (53.2%), followed by Manufacturing at 43.2%. Thus, it appears that companies in industries requiring heavy capital investments to operate will be more interested in raising finance soon. By comparison, only 23.8% of MSMEs operating in Professional Activities will do so.

From a region perspective, MSMEs in the Centre region declared the highest intention to seek resources (50.9% of respondents) – but they declared the lowest median amount of 0.5 mil MDL required. Companies in the South region had both the lowest intention to seek financing and the lowest median financing amount. Companies in Chisinau recorded the highest mean and median amount to be requested, reflecting the higher economic activity in the region, and potentially the higher consumer and producer prices in the region. Companies in the North region also showed an increased appetite for seeking finance – at 48.8 %, and an elevated median amount of 1.0 mil MDL.

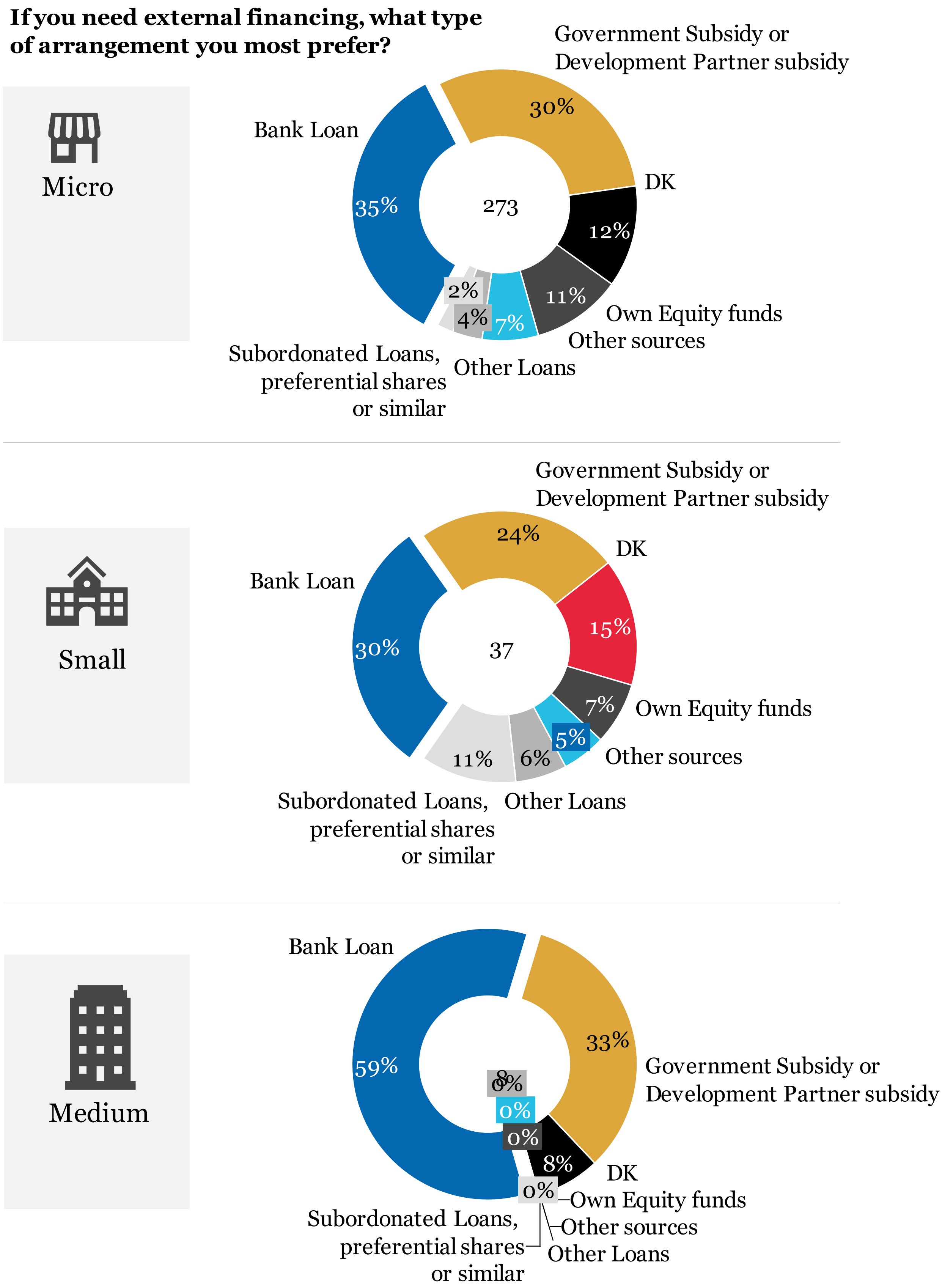
Figure 29 presents the type of financing preferred in the event of seeking finance – by company size. The figures reveal the striking difference in tolerance for taking on a bank loan: 59% of medium companies would be comfortable with it – while only 30% of small companies would be so – and 35% of Micro companies. Notable is also the consideration of companies of Government subsidies or Development partner grants (between 33% and 24% depending on the size) – which illustrates the perceived advantages of these sources.

*Table 6. Industry and region view on intention to seek finance and median amounts estimated*

| Industry | Share of companies planning to seek finance by Dec 2022 [%] | Mean financing amount estimated [mil. MDL] | Median financing amount estimated [mil. MDL] |
|---|---|---|---|
| Agriculture | 53.2% | 3.3 | 1.0 |
| Manufacturing | 43.2% | 0.9 | 0.5 |
| Whosale and Retail Trade | 37.0% | 4.1 | 1.0 |
| Professional Activities | 23.8% | 3.7 | 1.0 |
| Other | 41.2% | 3.2 | 1.0 |
| North | 48.8% | 2.8 | 1.0 |
| Centre | 50.9% | 1.9 | 0.5 |
| Chisinau | 37.5% | 4.1 | 1.0 |
| South | 31.5% | 2.2 | 0.5 |

*Source: PwC MSME survey*

*Figure 29. Type of future financing preferred, by company size*




*Source: PwC MSME survey*

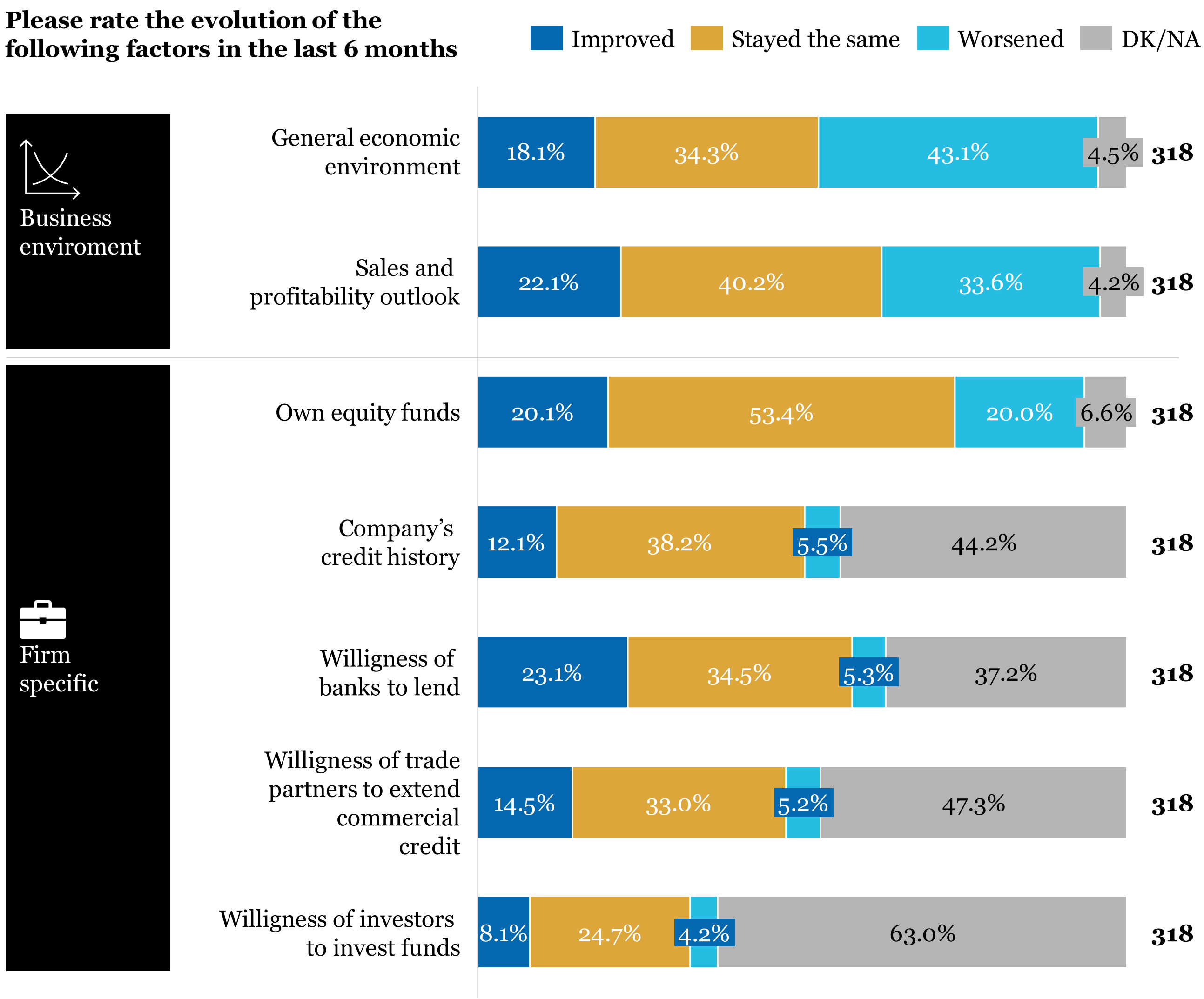
## 4.3 Perception of future financing availability

Most enterprises, irrespective the size, are facing operational obstacles for almost two years, including difficulties with revenues generation predictability, combined with an upward price spiral for bare materials and an unstable economic environment (Figure 30). Most SMEs surveyed in late 2021 considered that the business environment worsened (43,1%) or stayed the same (34.3%).

Only one in five enterprises recorded in the previous six months a positive outcome in sales and profitability, suggesting a glimpse of hope among micro, small and medium-size enterprises (MSMEs), which had already been struggling to thrive during almost two years already of COVID-19 pandemic. But for 40.2% of them the perspective remained stable, with a 33.6% with revenues or profitability falling.

Noteworthy, from collected responses there are visible material variations of perceptions of enterprises. 20% of the interviewed representatives considered that the own equity funds worsened in the last six months, funds that were probably used to get ahead of operational difficulties.

*Figure 30. MSME outlook on business factors*




*Source: PwC MSME survey*

.

The resilient balance sheets of the banks in this crisis, versus the 2008 one, have helped them to pass the COVID-19 pandemic well. They were resilient and secure in adapting quickly to remote operations and were instrumental in offering the help needed to entrepreneurs. 23.1% of the interviewed companies considered that the willingness of banks to lend to companies have improved in the last six months.

Respondents' opinions on the evolution of business in general and enterprises in particular in the last six months varies based on demographics. For example, net sentiment % in what concerns business environment worsened mainly in micro companies (-28%), followed by medium size companies (-11%) or in rural area (-32%). Women as managers are consistently among the more pessimistic -42% (Figure 31) which is in line with previous study[42] that specify that, gender-wise, a skewed effect of the pandemic was observed across interviewed women that perceiving a slightly stronger impact – specifically from an economic perspective.

Growth projects are also at risk, most affected in terms of sales and profitability outlook being the same categories: micro enterprises (-14%) and enterprises with female managers (-24%). Irrespective of rural or urban area, net sentiment regarding the revenues outlook is that it worsened with 11% and 12%, respectively, raising concerns that they might have to postpone growth plans. Willingness of banks to lend reveals a positive sentiment among all categories of enterprises, irrespective the size or location, with higher optimism recorded in the answers collected from small companies (+22% improvement) and from rural areas (+28%), placing banks, a whole, as a trusted partner in this journey.

Forward looking, for a short-term horizon, optimism is present in the answers collected from the interviewed enterprises. The number of MSMEs that ultimately fail to believe in a positive outcome will depend in large measure on the uncertain future course of the pandemic and the toll it takes on sustainability of revenues.

*Figure 31. Net MSME sentiment on business factors outlook by selected company demographics*


*Source: PwC MSME survey*

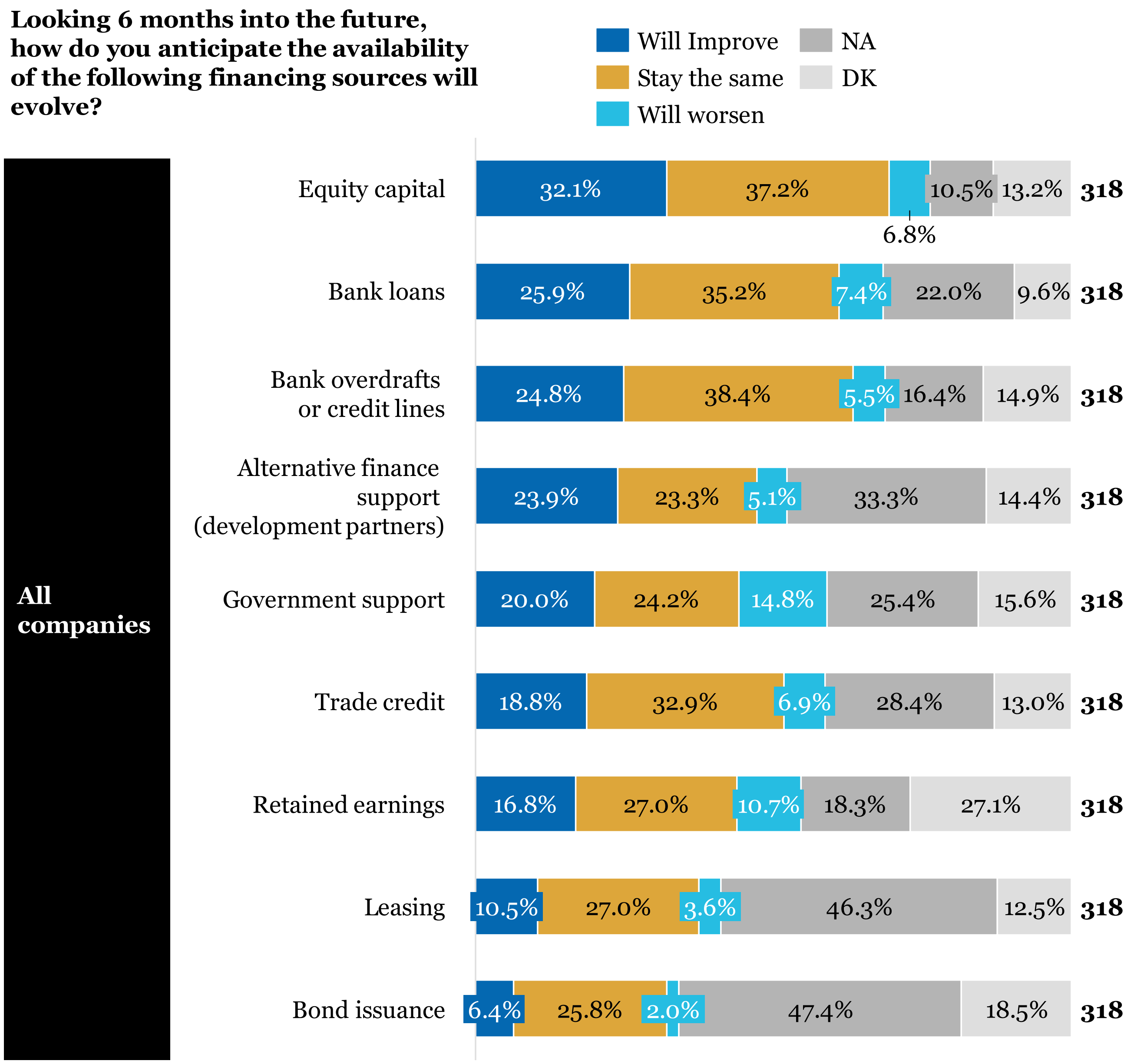
[42] Social and Economic Impact Assessment of the COVID-19 pandemic on vulnerable groups and economic sectors in Republic of Moldova

The questionnaire, therefore, asked survey participants to consider how their businesses would be sustained in 6 months - horizon scenarios, where funding sources will be available.

Without fear of anticipation, in a fast-changing environment, positivism appears in the answers collected from the respondents. Among key findings as expected availability of funding sources are equity raising, lending from the financial institutions and partnerships with development investors. Government support is key in short term or longer tenure, the perception being that government support will fade in the next six months (14.8% believe it will worsen), as seen in Figure 32.

Those percentages (14.8% - worsening expectations) could be influenced by the extent to which MSMEs continue to receive sustained government support. The business environment received help from all governments across Europe, most of them being targeted at covering MSMEs shortages of liquidity to, but as of now, the expectations are to shift at helping them recover.

*Figure 32. MSME perception of future financing sources availability*




*Source: PwC MSME survey*

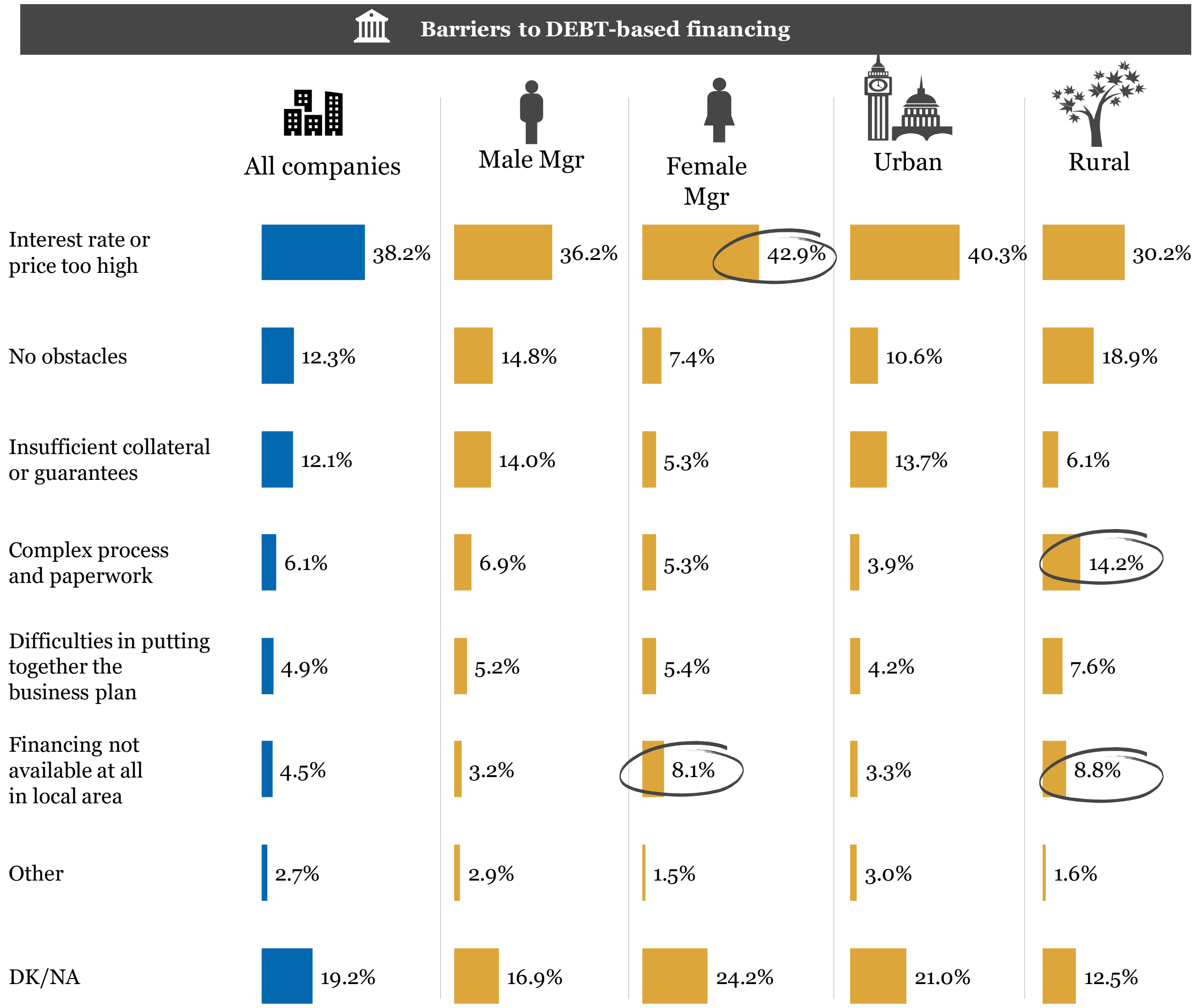
## 4.4 Barriers and success factors in raising financing

Success for many MSMEs, besides constant growth is how the enterprise stands out from its competition. There are important factors that can create an impact in the evolution of any enterprise: easiness of access to finance, competitiveness, markets, and government support. The size of the enterprise plays a major role, MSMEs are experiencing more constraints in upscaling and growth versus well-established enterprises, with performance track record.

Support can be translated also through access to relevant information, eliminating barriers that stand between MSMEs and prospective investors and lenders. Most common lenders, the banks, will remain main choice for companies. Even in crisis, they keep the position as gatekeepers for access to finance. Because MSMEs value trust and they capitalize it in their growth journey, banks will likely hold onto their advantage. However, recently, the pricing becomes more important, emphasized by the two years of pandemic conditions.

*Figure 33. Barriers to obtaining Debt financing by gender of manager and geo area*

**What do you think are the main barriers in obtaining DEBT financing?**




*Source: PwC MSME survey*

MSMEs are typically offered lending costs / participation rates at higher rate because they are considered a riskier business proposition. From a lender or investor perspective, the higher expected return must be compensated with the implied risk. In this light, the cost of funding is one of main barriers in raising finance. As a beneficiary, a significant part of the surveyed companies, considers that interest rate or price are main barrier in debt financing (38.2% as described in Figure 33). In the aftermath of the COVID-19 crisis, banks which did not adapt the price for funding MSMEs paved the way for alternative sources of finance versus traditional lending. The women managers are even more sceptical in terms of adhering to a higher price (42.8% women versus 36.2% men). Both urban and rural companies perceive costs as being the main barrier, given the fact that MSMEs need to manage their cash position tightly and optimize funding sources, otherwise they can be in a position of going concern.

While lending has become more easily available for some MSMEs, some segments face substantial barriers in accessing debt finance. Usually, transaction costs are particularly high in relative terms for micro-enterprises, start-ups, young MSMEs, businesses located in rural areas, with potentially no alternative source of funding. Younger enterprises have indicated interest rate as a more common barrier, while companies founded between 2 and 10 years ago mentioned insufficient collateral more.

*Figure 34. Barriers to obtaining Debt financing by age of enterprise*

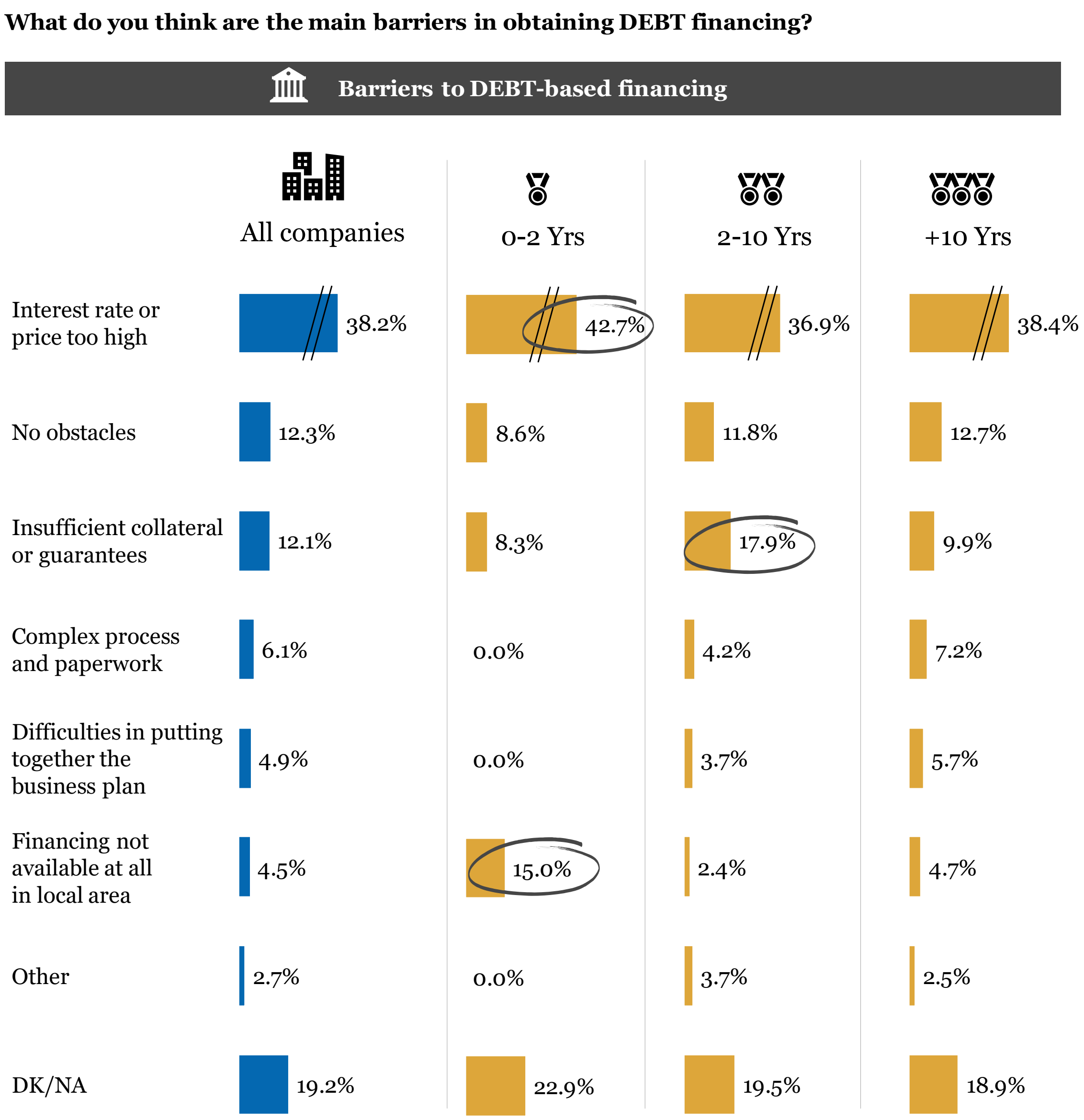
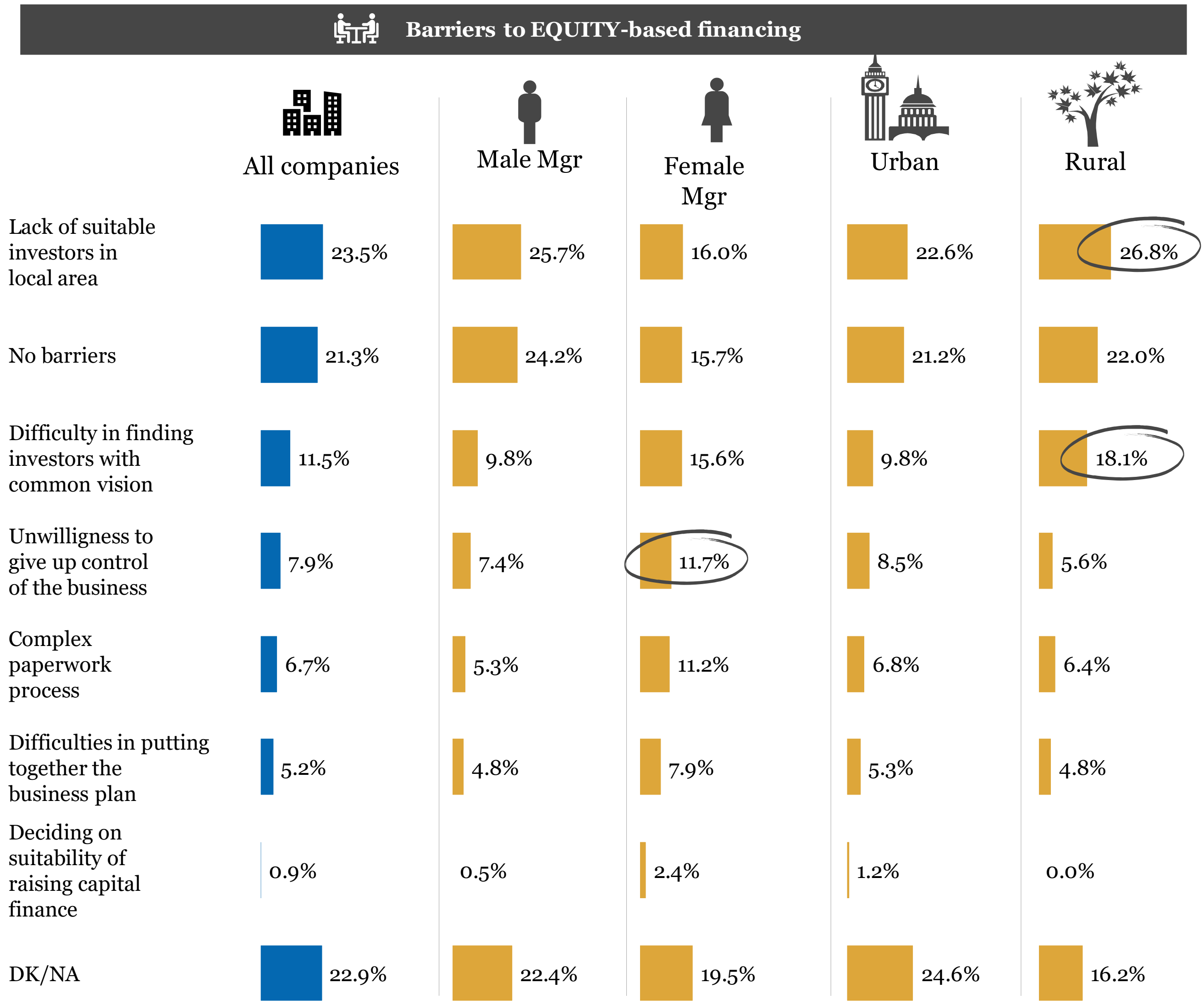


*Figure 35. Barriers to obtaining Equity financing by gender of manager and geo area*

**What do you think are the main barriers in obtaining EQUITY financing?**




*Source: PwC MSME survey*

Financial and business literacy play a vital role to prepare risk acceptable business cases to the banks. A poorly presented business case or cash flow is one of the most important reasons why banks decline credit applications. Banks should take the initiative to address this problem. Access to relevant information, less bureaucracy in terms of required documentation, mainly for companies in remote / rural areas, these are crucial deficiencies. From the interviewed companies, the complexity of processes with implied paperwork are putting the most pressure on companies from rural areas (14.2% of them consider these as barriers, comparative with only 3.9% for the urban MSMEs population). This discrepancy can be reduced with financial education, streamlined processes and less bureaucracy. Creation of local initiatives have significant potential for authorities or lending provider that are willing to develop their information data on MSMEs access to finance.

Scarcity of options in getting access to funding is also a barrier. Small businesses, mainly in rural areas, reflect the need to create bridges between small businesses and their investor / lender base. 8.8% of companies from rural area are considering that they have insufficient access to funding.

The interconnectivity challenge is extremely important in the “marketplace” of potential investors, lenders and investees / borrowers. In equity financing, lack of suitable investors in their area is main barrier for one in four companies. Against this backdrop, enterprises are genuinely searching for investors that embrace the same vision, following the long-standing need to invest together capital structures. The downside is the decrease of search for borrowing, that becomes less urgent. Without any doubt, the bank financing will continue to be crucial for MSMEs, but new horizons are explored for a more diversified set of options. However, 18.1% of the enterprises interviewed from rural area are expressing the same concern: they are facing difficulties in finding investors that share the same vision of growth.

Regarding barriers for equity financing (Figure 35) Most concerns presented are in rural area. With MSME clients typically widely dispersed across the territory, local banks or investors must identify geographic concentrations of these businesses and to customize solutions for their needs. Equity finance is a promising instrument for entrepreneurs with a high risk-return profile, such as start-ups and innovative MSMEs. Seeding in business can provide financial resources to growth-oriented companies, but decision should be taken seriously by the companies asking for finance. One important aspect that should be considers is also willingness to give up control of the business, where some concerns arise.

*Figure 36. Barriers to obtaining Equity financing by age of enterprise*

**What do you think are the main barriers in obtaining EQUITY financing?**

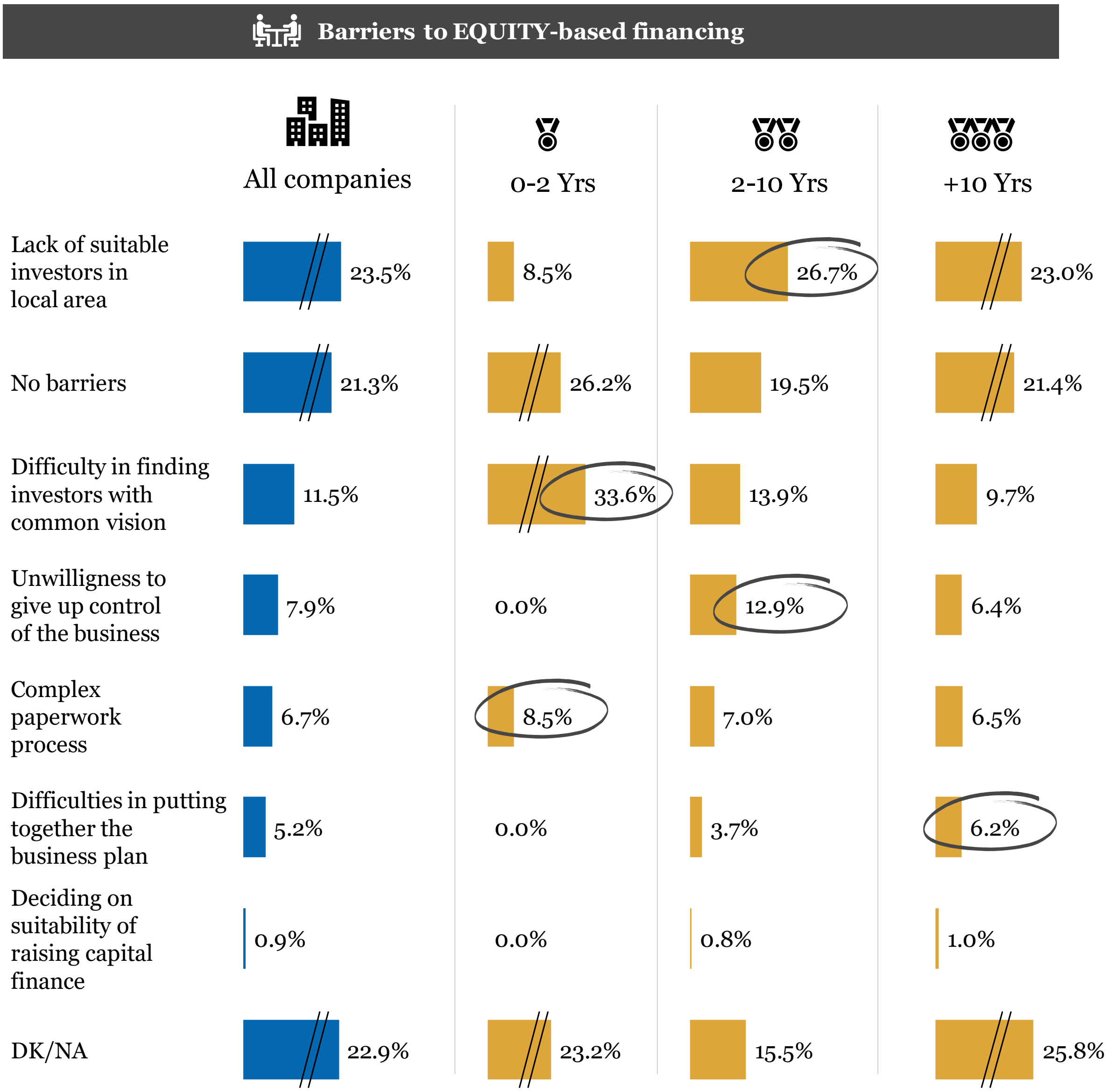
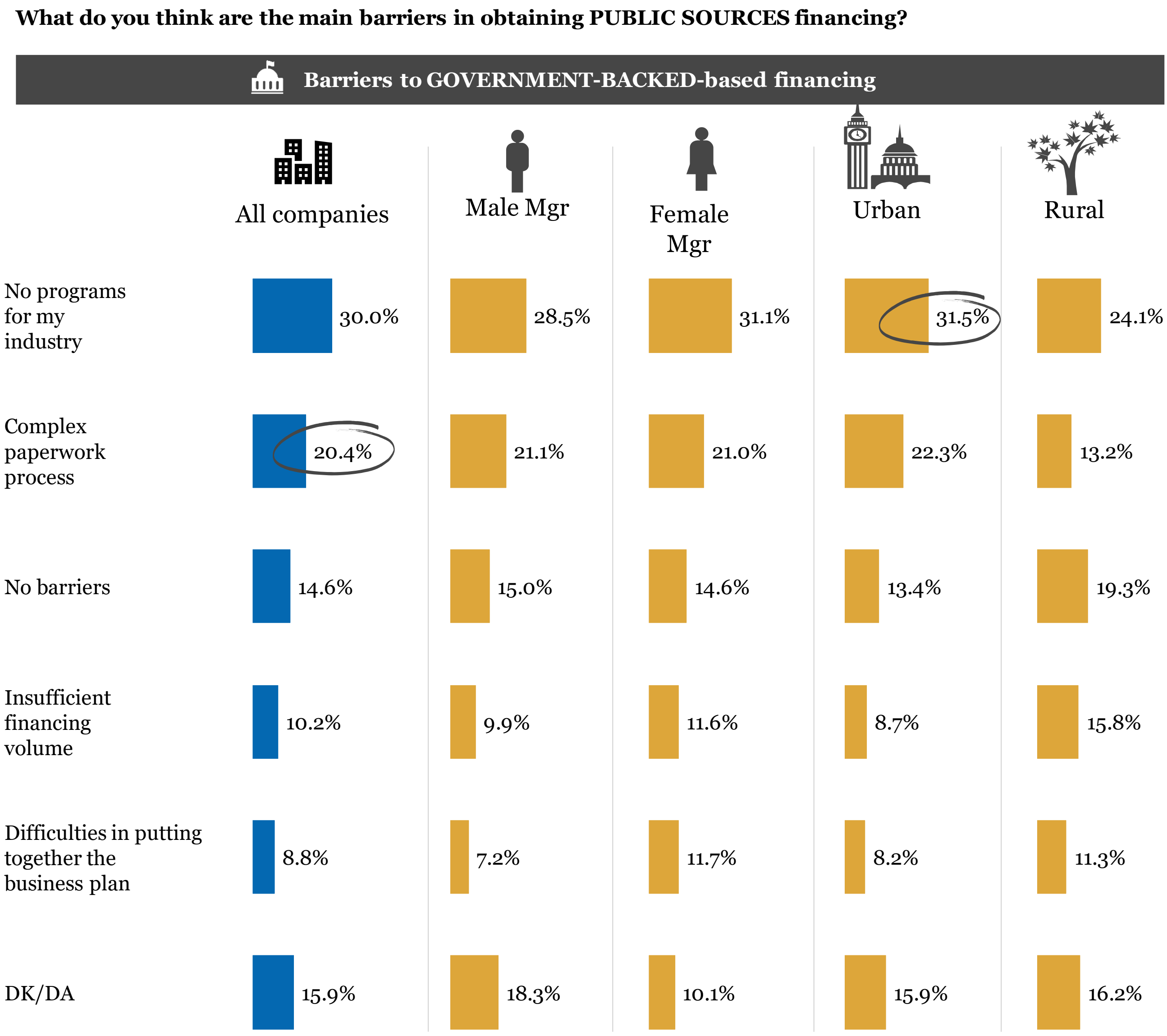


*Figure 37. Barriers to obtaining Public Sources-backed financing by gender of manager and geo area*




*Source: PwC MSME survey*

Complementary to the commercial banks offering or raising finance from the investors, authorities should be added as solution providers in the scope of developing MSME segment. Government and the programs they can develop are key for under-served clients.

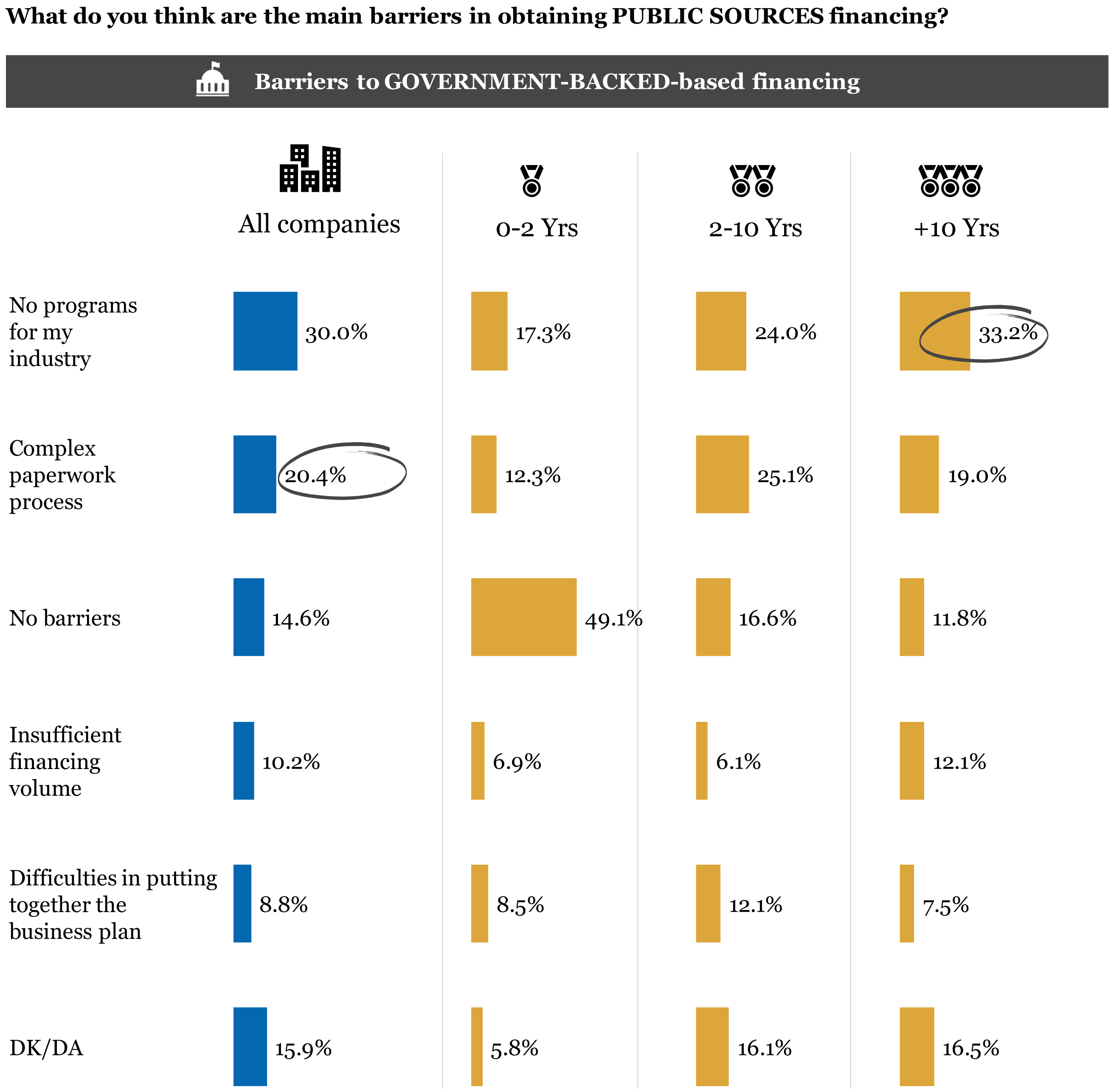
To understand how best to approach the barriers in the government backed public sources financing (Figure 37), some answers from the interviewed companies are instrumental in defining solutions. One in three companies from the sample interviewed could not identify a program tailored for the industry in which they operate. Compared to some other captions addressed in previous chapters, the urban enterprises felt more the lack of support (31.5% in urban versus 24.1% in rural area).

The country benefits from growth in the MSME segment, being a significant contributor to GDP and employment, especially in a prevailing economic climate. Sustained efforts should be performed to reduce the complexity of processes, with excessive paperwork, in order to facilitate access to government backed based financing. One in five companies are considering that the access to this type of finance is too bureaucratic and complex.

Difficulties in putting a workable business plan together were cited by 8.8% of respondents overall, with female-led businesses (11.7%) and rural businesses (11.3%) recording values above average. This result may reinforce the idea that the access to funding and financial education go hand in hand and streamlining the creation of credible business plans could be an important channel for impact.

The age of the enterprise seems to have an inverse effect on the perception of barriers, as reflected in the fact that 33% of companies that were founded more than ten years ago assert that they found no suitable programs for their industry – versus a smaller figure or 17.3% for companies founded less than two years ago.

*Figure 38. Barriers to obtaining Public Sources-backed financing by age of enterprise*



# 5 Current practices in MSME financing

This chapter investigates the current uses of finance of MSMEs in Moldova, based on PwC survey data. The orientation of the questions is around the current practices – however these are mostly rooted in the past, and reflect concrete financing decisions made by companies, rather than expectations.

Section 5.1 starts by reviewing the nature of the financing sources used by companies, drawing on the internal/external financing distinction. In addition, the evolution of the relative indebtedness level (as measured by the debt to total assets ratio) is also reviewed. Though most companies used internal financing sources, the indebtedness has inched up during the period for certain subgroups.

The survey asked questions on the use and knowledge of financing instruments split by the commercial character (debt and equity) and those with a support component (government-backed and development partner-backed). Somewhat intuitively, the traditional debt-based instruments (trade credit, bank loans, leasing) were the most used and most familiar. As the complexity of the instrument increased, the use and familiarity with it decreased.

Section 5.2 mirrors this result, with traditional financing actors being the most established and understood in terms of products and way to approach. Most respondents by far indicated that once a financing need was identified they went directly to the bank, with discussions with the company's accountant and analysis of financing grants somewhat trailing behind.

In evaluating the main reasons for seeking finance in section 5.3, an-industry-led picture emerges, with main needs varying based on capital intensity, infrastructure investment requirements and other industry specifics. Section 5.4 presents the results on experiences with application, which reveals a lower success rate of female-led businesses versus male-led businesses when applying for finance. Also, there are some differentials in the success rate of Urban versus Rural businesses, depending on the instruments in question.

Finally, section 5.5 assesses the landscape of the main providers of finance for MSMEs. Though most prefer more providers, there is a sizable number of companies which prefer just one provider, with the main reason being having an established relationship, highlighting the role of trust between the lender and the borrower. The role of family and friends, as well as alternative providers like fintech and crowdfunding platforms is illustrated by the way companies have reached to these sources, besides their main financing provider.

## 5.1 Use of different sources of financing

Usually, the enterprises rely either on internal funds, or cash from acquaintances and family to inception phases of their enterprises. The results of the survey indicate just how hard their wealth or business continuity has been hit by the COVID-19 crisis, three out of four companies accessing finance to cover business needs in the surveyed enterprises (only 23.8% of the surveyed enterprises recorded no financing needs). The access to finance was different, but a majority of 57% used only own funds to finance their business in the past 6 months in 2021.

The majority of MSMEs surveyed have seen the need to cover liquidity shortages, although, as one might expect, the picture differs by region, reflecting the decisions impact on business activity: the South area was the most affected, according to the collected responses (78% of the southern enterprises used only own funds, versus an average of 55% in the rest of the country). In this perspective, the horizon of future needs will be evenly distributed in near future.

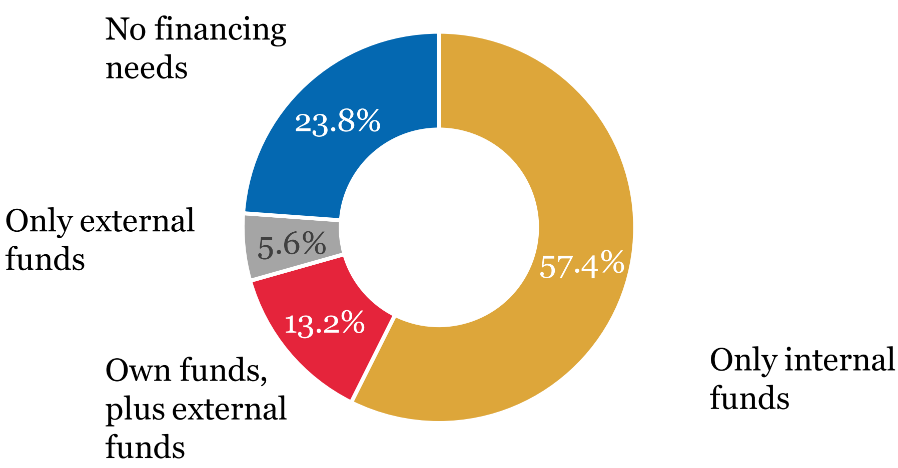
The use of solely external funds was the highest among the medium companies subgroup (19%) and decreases with size, with Small companies (9%) and Micro companies (5%) indicating lower use of external funds – which is most likely a direct consequence of lower access to such funds. This is further confirmed when looking at the annual turnover – 15% of businesses with less than 3 mil. MDL turnover per annum used external or combined financing – while for businesses above 3 mil MDL turnover the figure is 27%.

The use of combined internal and external funds was the highest for companies in Agriculture (22%) and the lowest for companies operating in Professional Activities and Services (4%) – the latter companies had the highest responses indicating no need for financing (42%). This is further evidence to the arguments made in Chapter 4, whereby the industry and operating specifics of the firm drives to a large extent the need for finance, and thus the sources of financing used. Urban and rural businesses had a relatively similar profile, with the main difference being rural businesses showing a higher use of combined sources (20% vs 12%).

Female-managed businesses indicated a higher rate of not needing financing (36%) than male-managed businesses (21%) over the period, a fact most likely associated with the industry mix.

*Figure 39. Financing structure of survey MSMEs*

**For each of the following sources of financing, could you please say whether you used them during the past 6 months?**



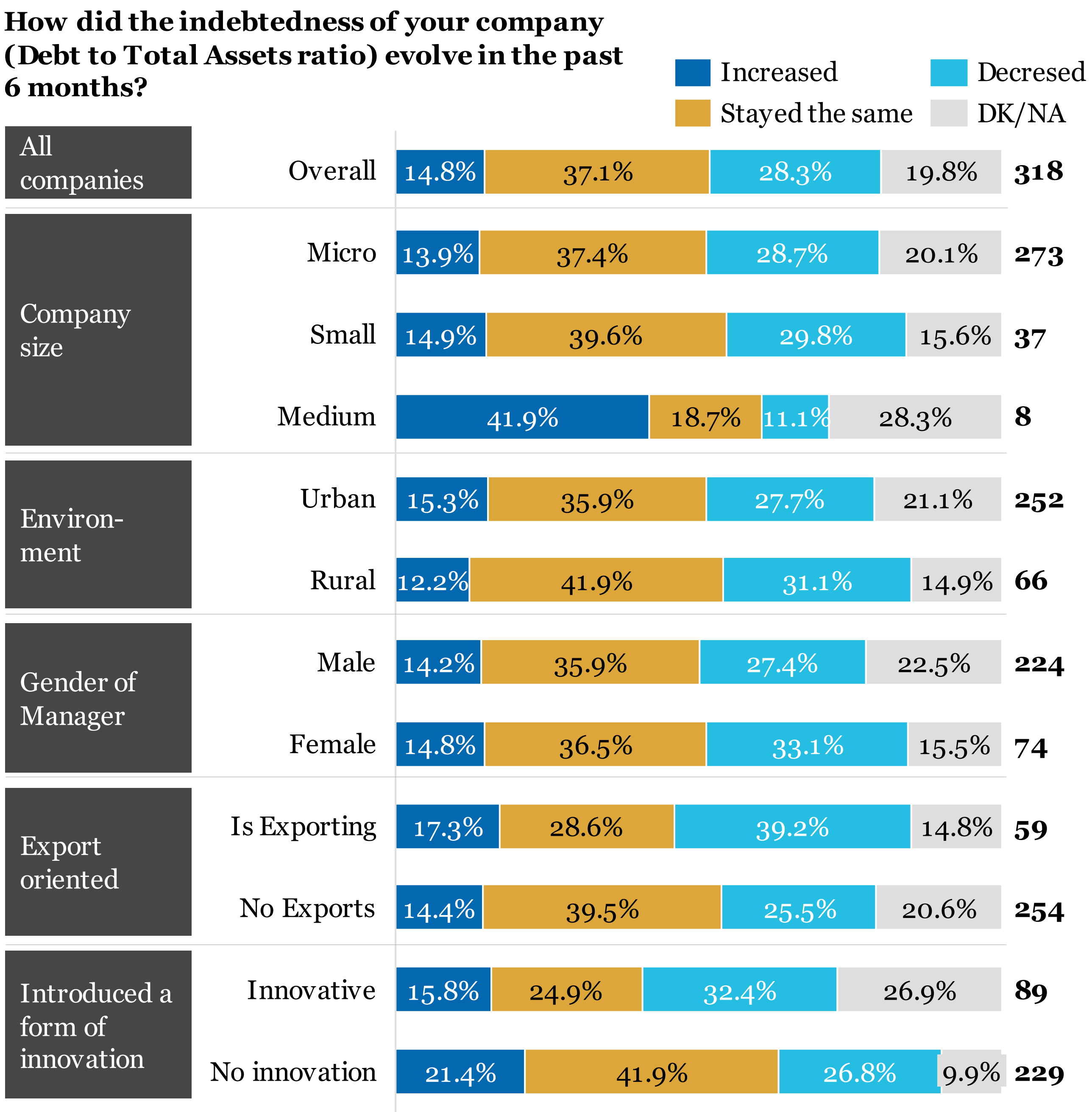

*Source: PwC MSME survey*

MSMEs displayed consistency in their answers, with the same trends in indebtedness (debt relative to total assets, Figure 40) emerging as to incremental debt analysed previously. Overall, 14.8% of companies recorded increases in their balance sheet debt, while 28.3% recorded decreases.

The largest measured increase in indebtedness was recorded for medium companies – 41.9% of which mentioning incurring more debt over the course of the past 6 month. Less innovative companies measured a higher increase (21.8%) versus more innovative companies (17.3%).

Exporting companies have seen the highest decrease in indebtedness, with 39.2% declaring so, presumably due to repaying debt and postponing investments in the wake of uncertainty in core foreign markets.

*Figure 40. Evolution of MSME indebtedness*

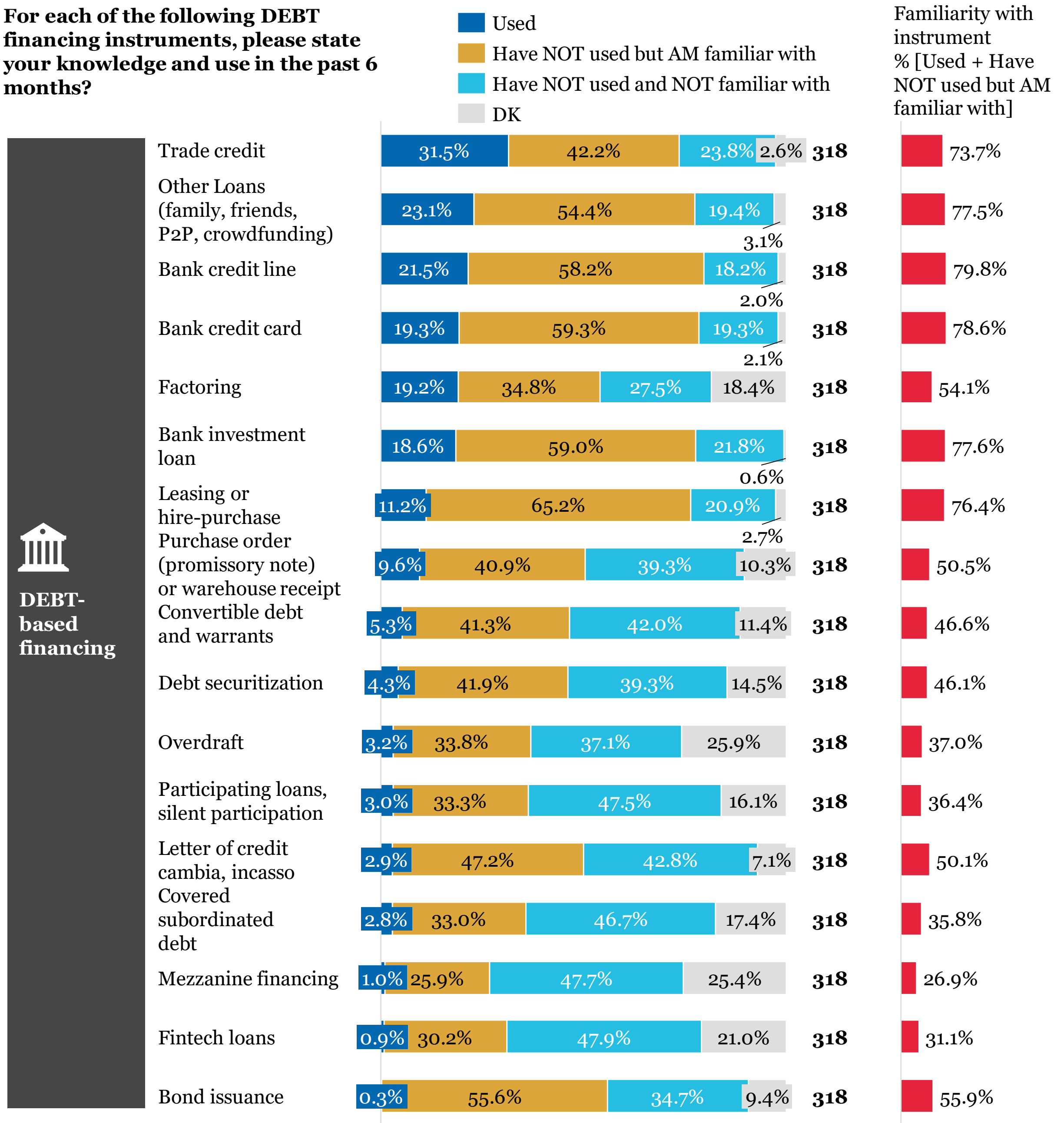



*Source: PwC MSME survey*

With respect to Debt financing instruments, MSMEs displayed use and knowledge that both decreased with the complexity or novelty of the instrument. Trade credit (31.5%) and other loans from family, friends, crowdfunding and P2P (23.1%) were the most used instruments for bootstrapping a business. At the opposite end, while 55.9% were familiar with bond issuance – only one company used it. Similarly, with mezzanine financing or subordinated debt.

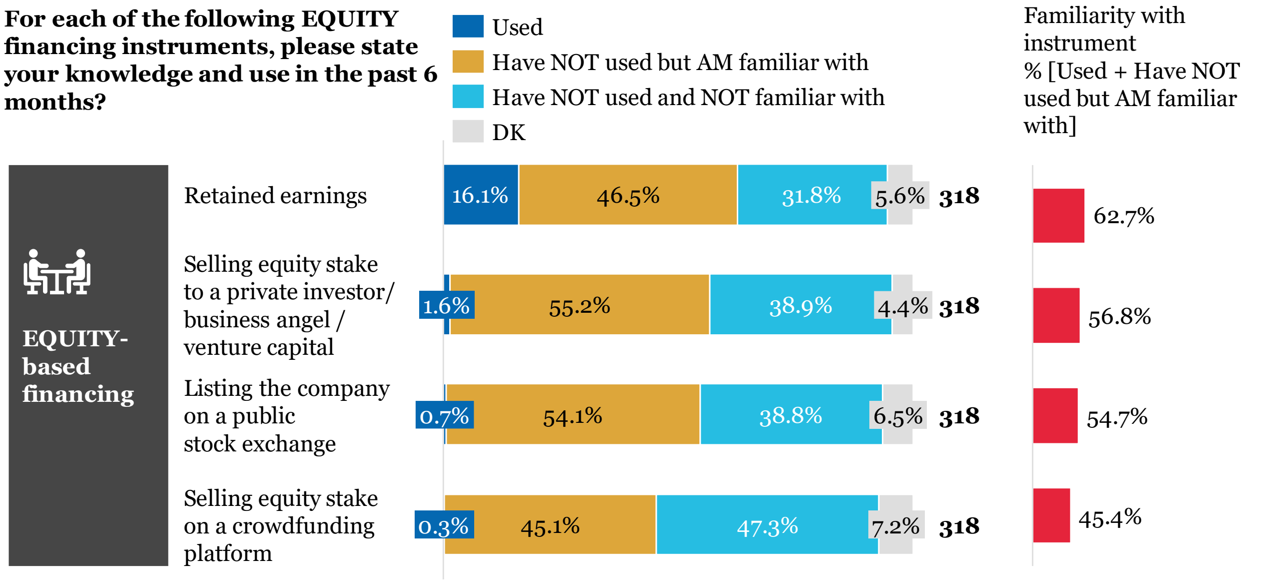
Hence, at the current time, traditional instruments still dominate the mindshare of companies. However – some newer alternative instruments (fintech loans, crowdfunding) have the potential to be adopted – to the extent they resemble some traditional instruments, and their complexity is not prohibitively high.

*Figure 41. MSME knowledge and use of DEBT financing instruments*




*Source: PwC MSME survey*

*Figure 42. MSME knowledge and use of EQUITY financing instruments*




*Source: PwC MSME survey*

Looking at Equity-based instruments (Figure 42), MSMEs signalled overall familiarity with the instruments, but rather low use. The most used, as to be expected, was retained earnings (16.1% of companies used it in the past 6 months). This is not surprising, considering that profit reinvestment only comes with an opportunity cost and not a nominal cost.

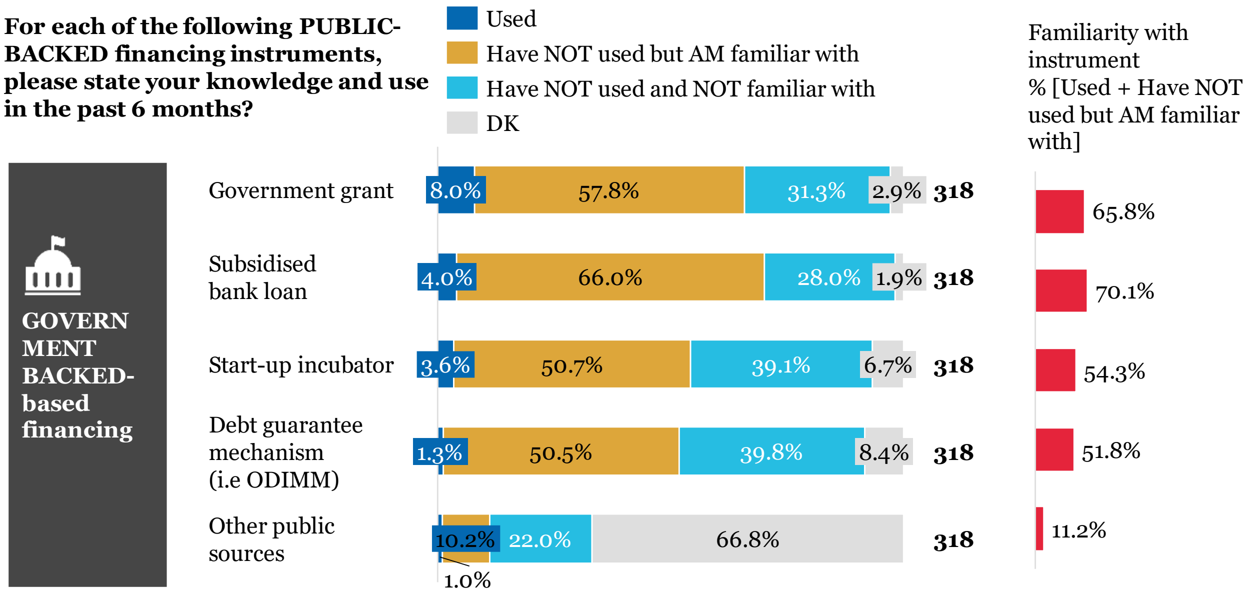
The other three options had very low usage. Selling an equity stake to a private investor, business angel, or venture capitalists was the second option in terms of familiarity, but with only 1.6% of companies using it. The difficulties and transaction costs associated with finding a partner to sell, make this more of a circumstantial opportunity for entrepreneurs, rather than a reliable instrument. In addition, as seen in section 4.4, even when potential partners exist, a common vision that can aid negotiation – is not guaranteed. Similarly, with listing the company on a public stock exchange (which 0.7% of respondents, two companies) have used. The lack of developed capital market infrastructure in Moldova makes equity financing not the first financing option, unless they are considering listing abroad (during the consultations organized by PwC various stakeholders have mentioned the registering businesses in the Baltics or other similar jurisdictions).

Concerning Government-backed instruments (Figure 43), government grants were the most used (by 8.0% of MSMEs), with 4.0% of companies using a subsidized bank loan (which was the most familiar option for respondents). Start-up incubators were used by 3.6% of respondents – mainly Micro companies. Statistically, most of the companies that took government grants are medium size enterprises.

Nevertheless, the flipside vantage point can also be assumed: when asked about the awareness of some of the most plain vanilla financing sources, the perception is that most of them are not well known by the respondents. For example, 31.3% of the interviewed companies have not used and are not accustomed with the benefits and covenants of a subsidised bank loan. These responses suggest that the lack of information and cash flow constraints on MSMEs may imply a significant negative impact on the Moldovan economy in the following years. But of course, they can also be translated into opportunities for financial education.

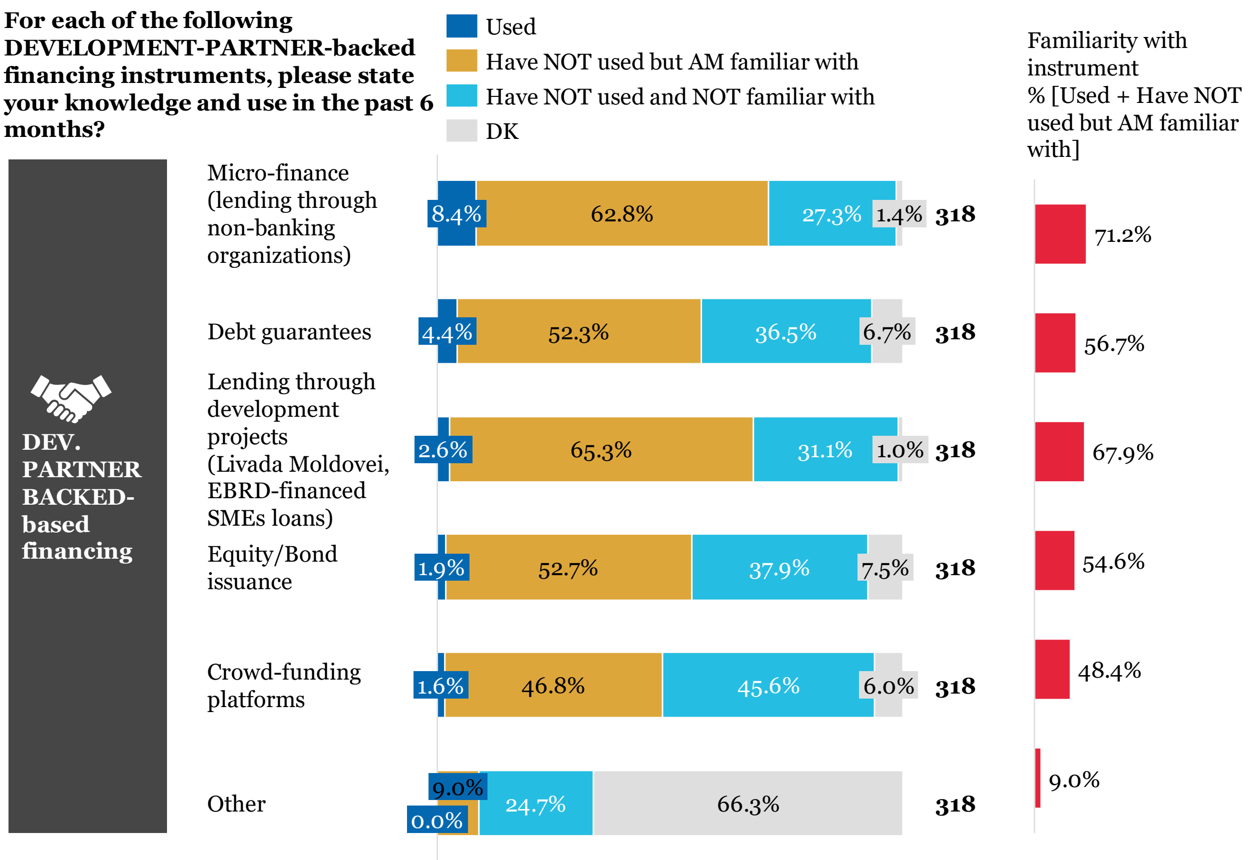
Looking at Development Partner-backed instruments (Figure 44), the most used and the most understood instrument was micro-finance lending, through non-banking organizations (8.0% of MSMEs used and 57.8% have not used but are familiar with). Despite increased awareness among respondents, only 2.6% accessed a loan through development projects like Livada Moldovei or EBRD-financed SME loans. Less than half of MSMEs were acquainted with Crowdfunding -as an alternative financing instrument.

*Figure 43.MSME knowledge and use of GOVERNMENT-BACKED financing instruments*




*Source: PwC MSME survey*

*Figure 44. MSME knowledge and use of DEVELOPMENT PARTNER-BACKED financing instruments*

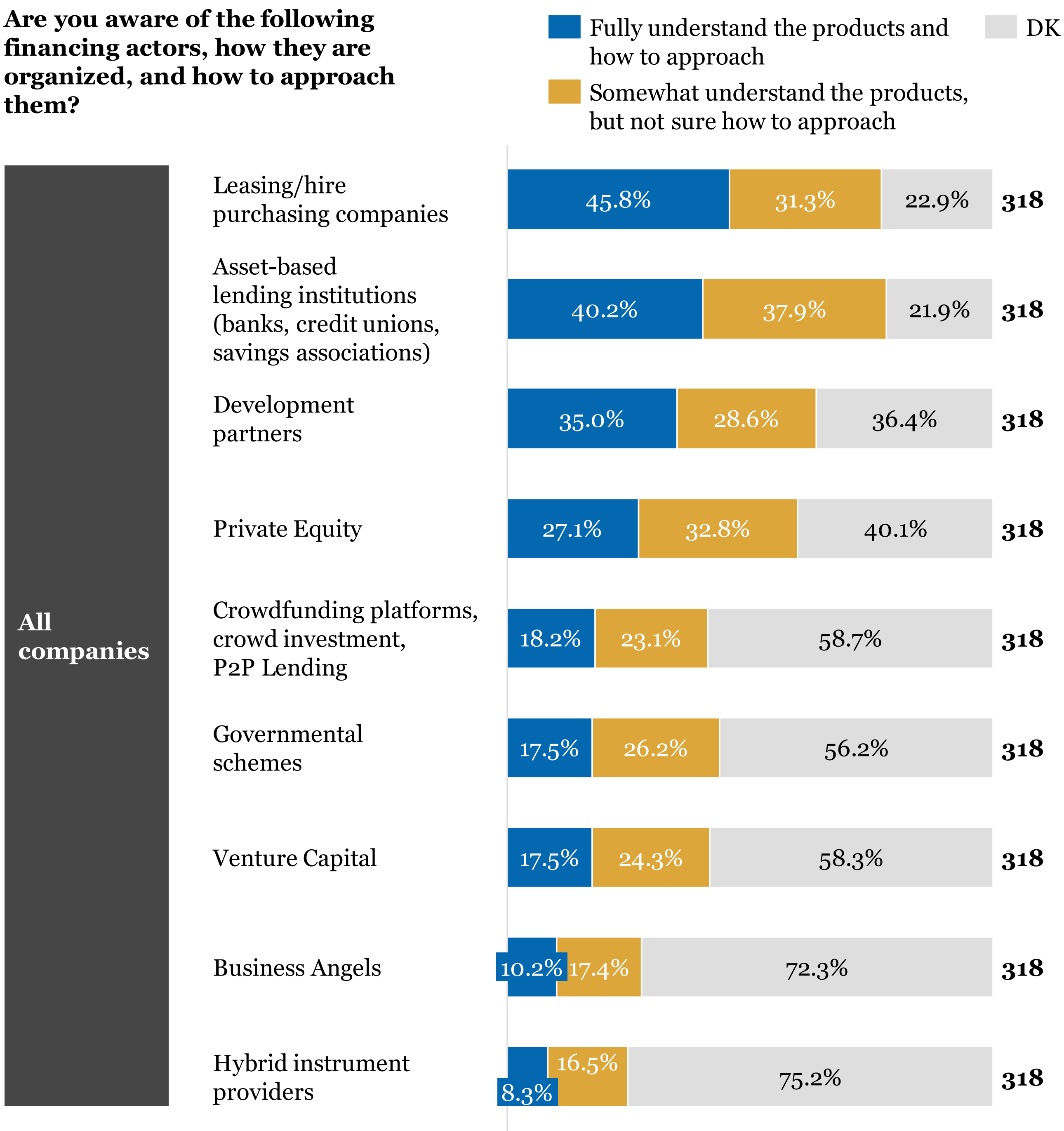



*Source: PwC MSME survey*

## 5.2 Awareness of financing actors

Consistent with the views on financing instruments, MSMEs display similar awareness of financing actors. Leasing and hire-purchase (45.8%) and Asset-based lending institutions (40.2%) were most known in terms of product understanding and knowledge of how to approach. Roughly a third of respondents (35.0%.) declared they understand how to approach Development Partners, but only 18.2% did so for Crowdfunding or P2P Lending. Government schemes had an even lower familiarity (only 17.5% having complete knowledge).

*Figure 45. Awareness of financing actors*

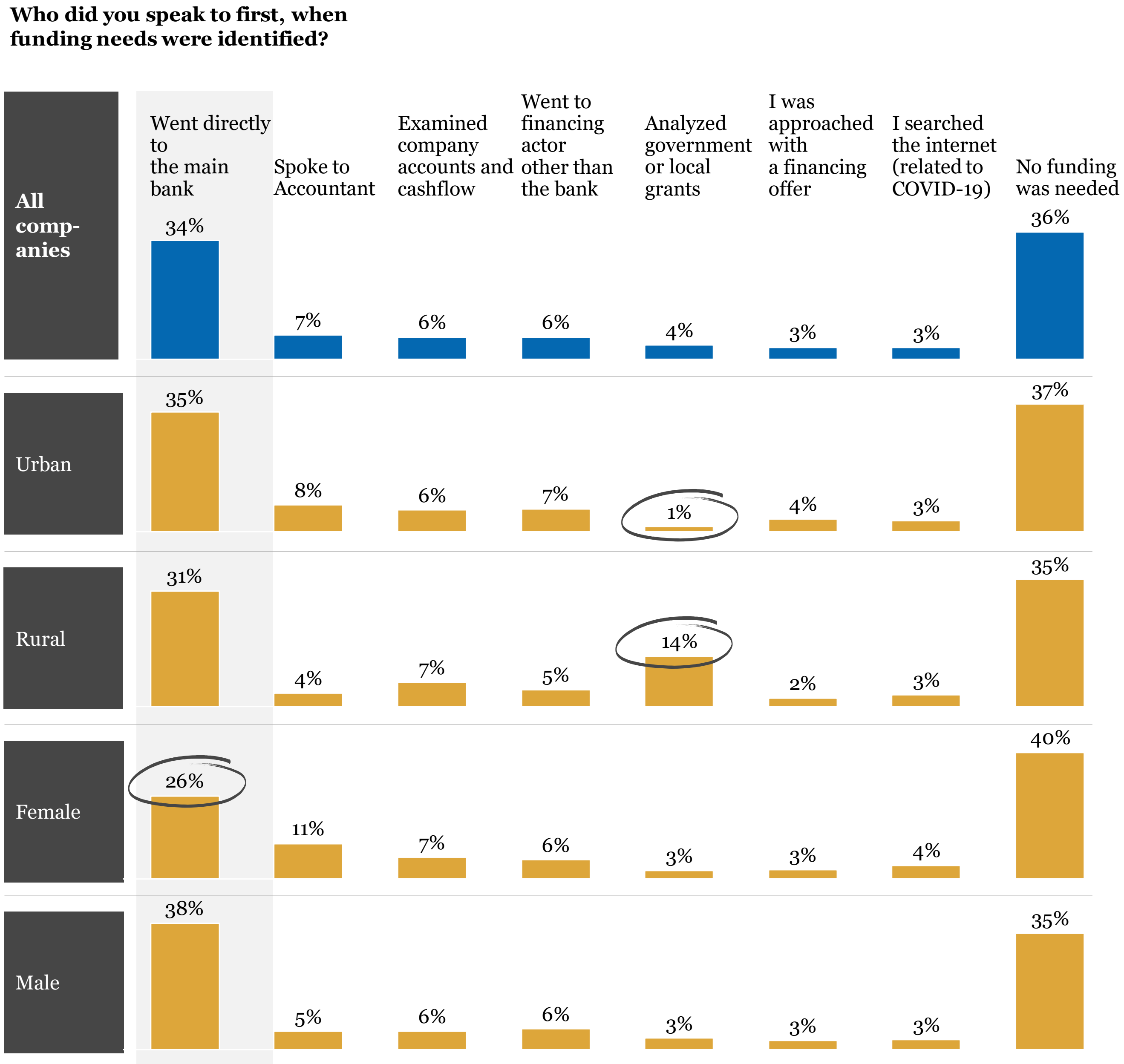



*Source: PwC MSME survey*

When a financial need was identified – going to the bank was the first point of contact among the enterprises that were the subject of the questionnaire and like historical numbers in accessing finance, one in 3 interviewed (34%) enterprises being in this position (Figure 46). This finding was somewhat moderated by the gender of the manager, with female-led businesses showing a lower intention of going directly to the bank (26%) than male-managed ones (38%). The own accountant of each firm is the next in line for getting information, based on capitalized trust (7% overall).

A large difference was found between Urban and Rural business with respect to analysing local or government grants: for the former only 1% did so when a financing need was identified – for the latter 14% did so. This is a strong indication of the importance of government support for the rural businesses, mostly of which operate in Agriculture.

*Figure 46. MSME approach to potential financing actors*




*Source: PwC MSME survey*

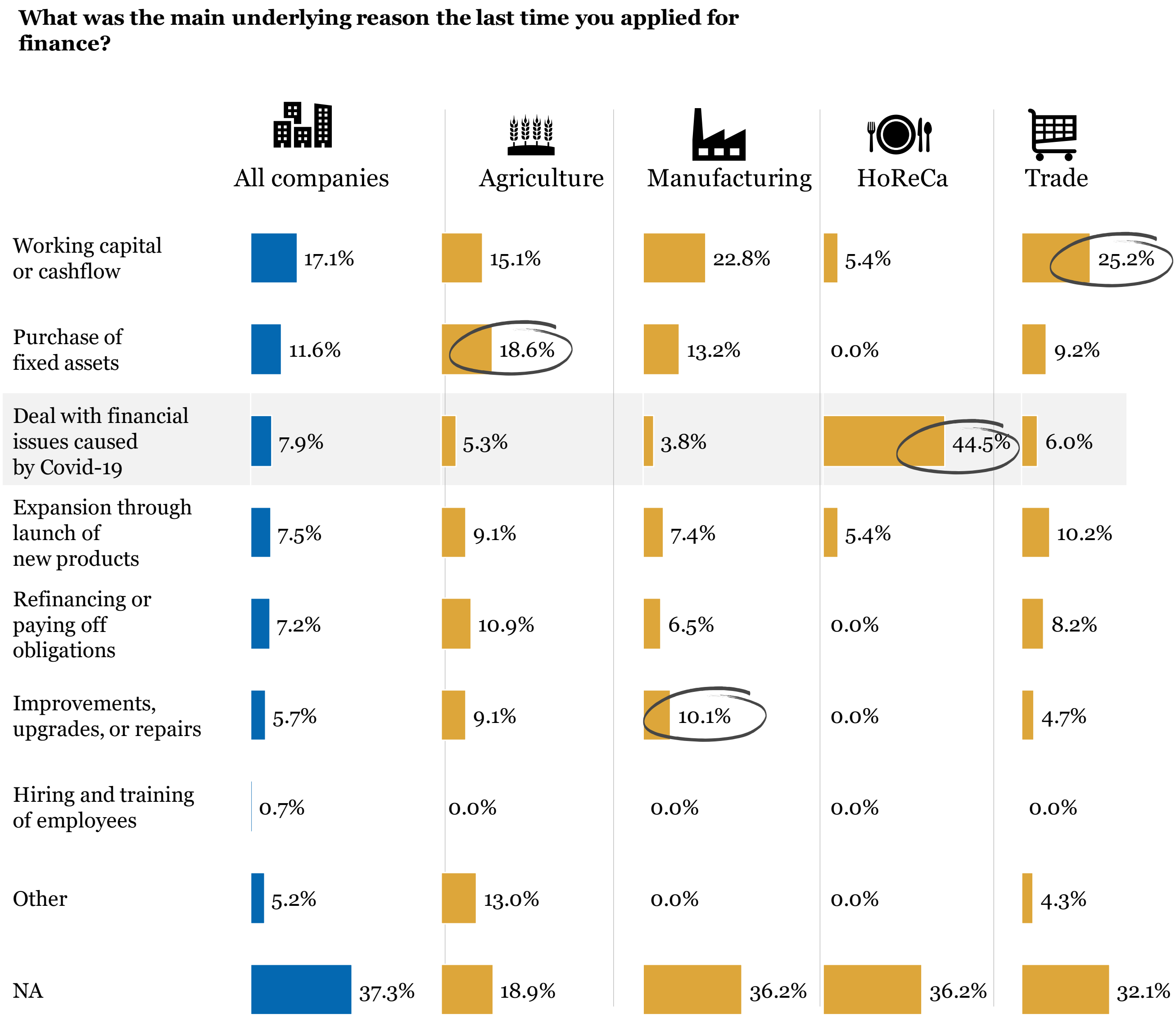
## 5.3 Main reasons for seeking finance

The main reason for seeking finance (Figure 47) was working capital or cashflow needs (17.1%) Variation among the respondents was highest based on industry, and not as high based on rural/urban environment, gender of manager. As such, inventory-intensive industries such as trade had an even higher need for working capital (25.2%), whereas non-intensive ones like professional activities had a lower need (2.57%)

Purchase of fixed assets was the second most common reason overall (11.6%), with businesses in Agriculture particularly assertive (18.6%) in this area. More of the latter companies also cited an intention to fund improvements, upgrades, or repairs (9.1%) - second after manufacturing businesses (10.1%).]

Applying for finance to deal with financial issues caused by Covid-19 was cited by 7.9% of companies overall – but by 44.5% (almost half) of all HoReCa MSMEs, further illustrating the difficulties faced by the sector.

*Figure 47. Main underlying reason for applying for finance last time*




*Source: PwC MSME survey*

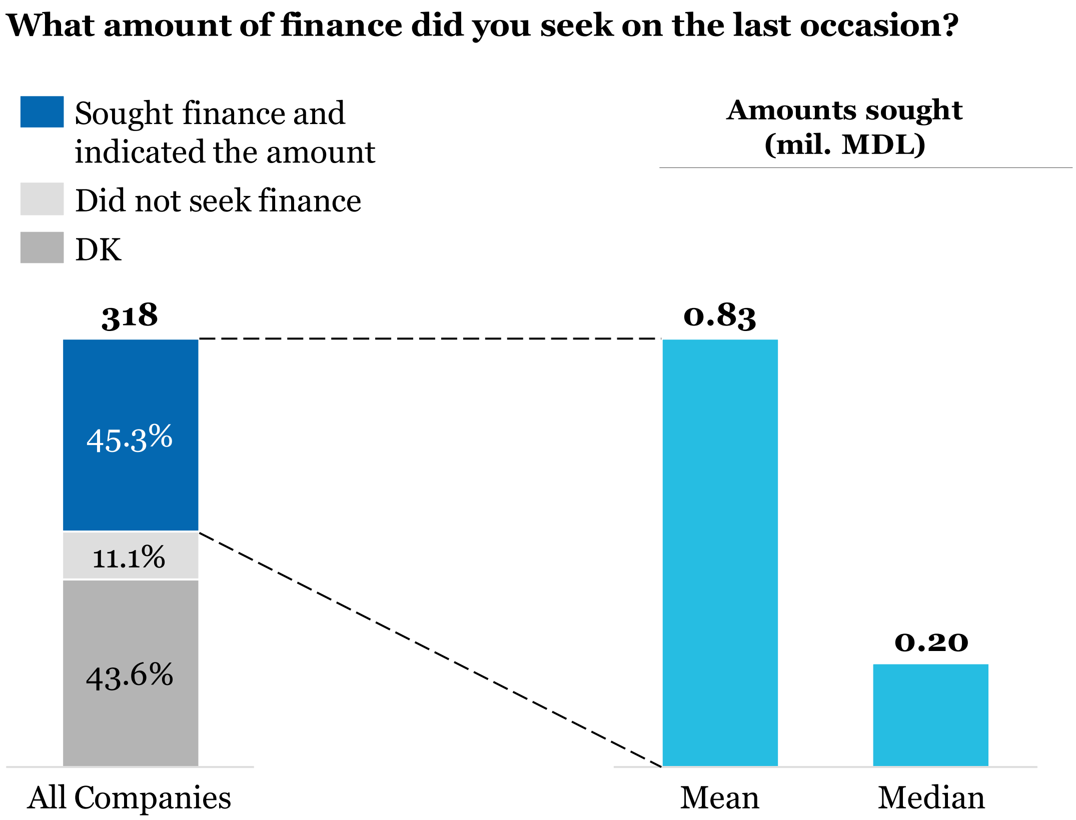
## 5.4 Experiences with applications

From the total number of companies, 45.3% had indicated they sought finance on the last occasion (Figure 48). Companies sought a mean amount of 0.83 mil. MDL and a median of 0.2 mi. MDL. The lower values given by MSMEs for this question – compared to section *4.2 Financing needs and future uses are* consistent with the trends declared by companies concerning increasing indebtedness on the short term and future expectations. Thus, the fact that MSMEs expect to borrow more in the future than they have done in the past may reflect a somewhat negative outlook on the future, one which requires more resources to deal with the crisis – rather plans for expansion. Rural business had a median of 0.5 mil. MDL versus 0.2 mil. MDL urban companies, indicating a higher need for funds.

Figure 49 presents the status of applications and success rate. The most utilized instrument by MSMEs remained the bank loan (overall 21% of respondents filling an application previously), followed by bank credit lines, bank overdrafts or bank credit cards (17% of respondents filling an application). Applications for bank loans had a higher success rate (74% of applications receiving full amount requested or at least half of it) compared with bank credit lines, overdrafts, or bank credit cards (only 59%). This may reflect the tightening of lending standards by banks during the pandemic, with a stronger preference for safe projects (i.e more collateral), rather than funding riskier working capital part of the balance sheet.

Companies with a female manager had a lower success rate in applying for a bank loan (57% got full amount requested or at least half versus 79% companies with male manager). For banks credit lines, the acceptance rate was roughly equal (60%). Rural companies had a higher success rate for investment loans (85% versus 69% urban companies), but the opposite was true for bank credit lines (58% versus 60%).

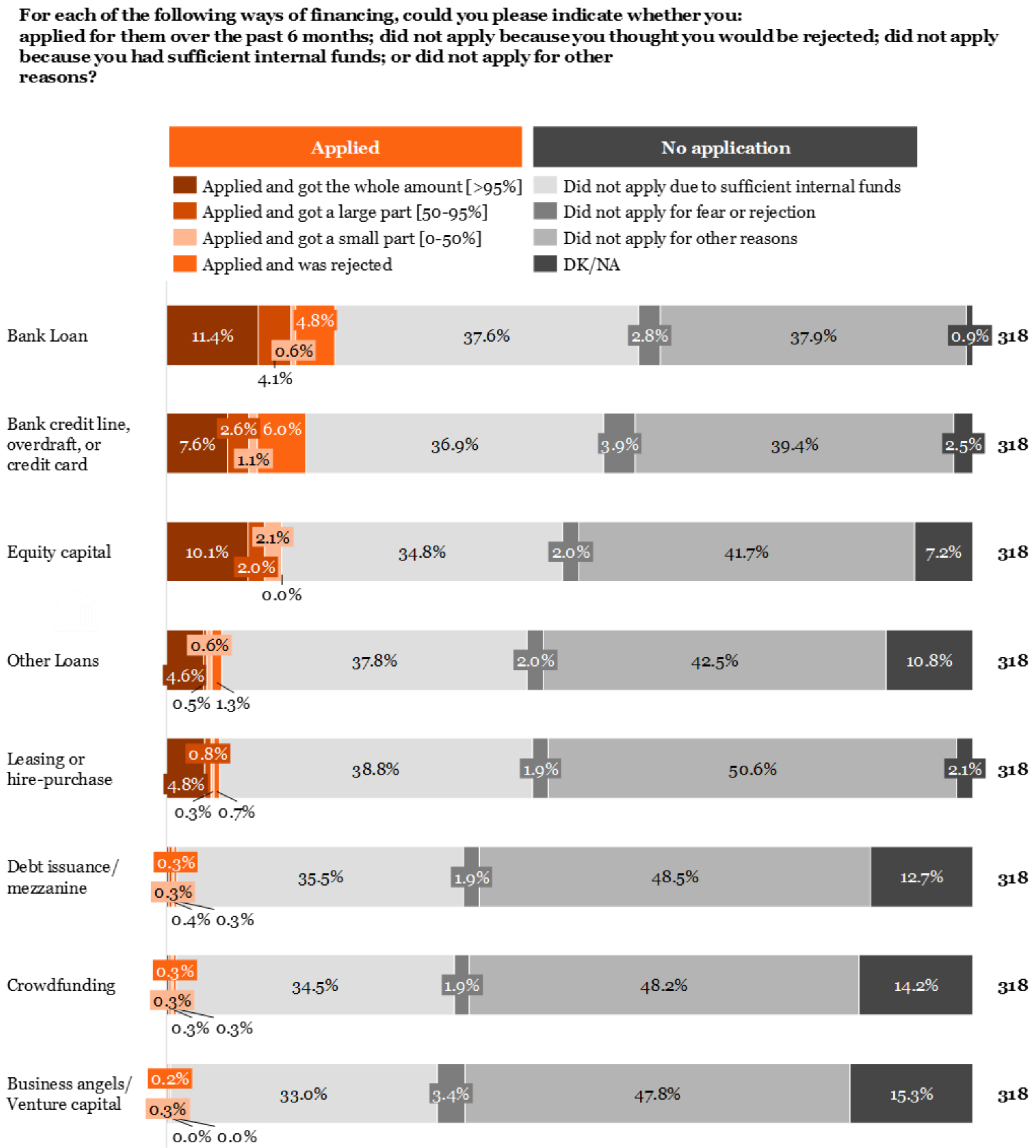
*Figure 48. Finance amount sought on last occasion when applying*




*Source: PwC MSME survey*

Despite overall high familiarity of companies with Leasing and Hire-purchase finance, this instrument was not accessed as much previously (6.9%), nevertheless it had the highest success rate – with 85% of applicants receiving all amount or at least half of it. Less used and more complex instruments like mezzanine financing or venture capital had a very low incidence of application. Crowdfunding applications were successful for 0.6% of MSMEs (i.e. two companies in the sample).

*Figure 49. MSME rate of success when applying for finance*




*Source: PwC MSME survey*

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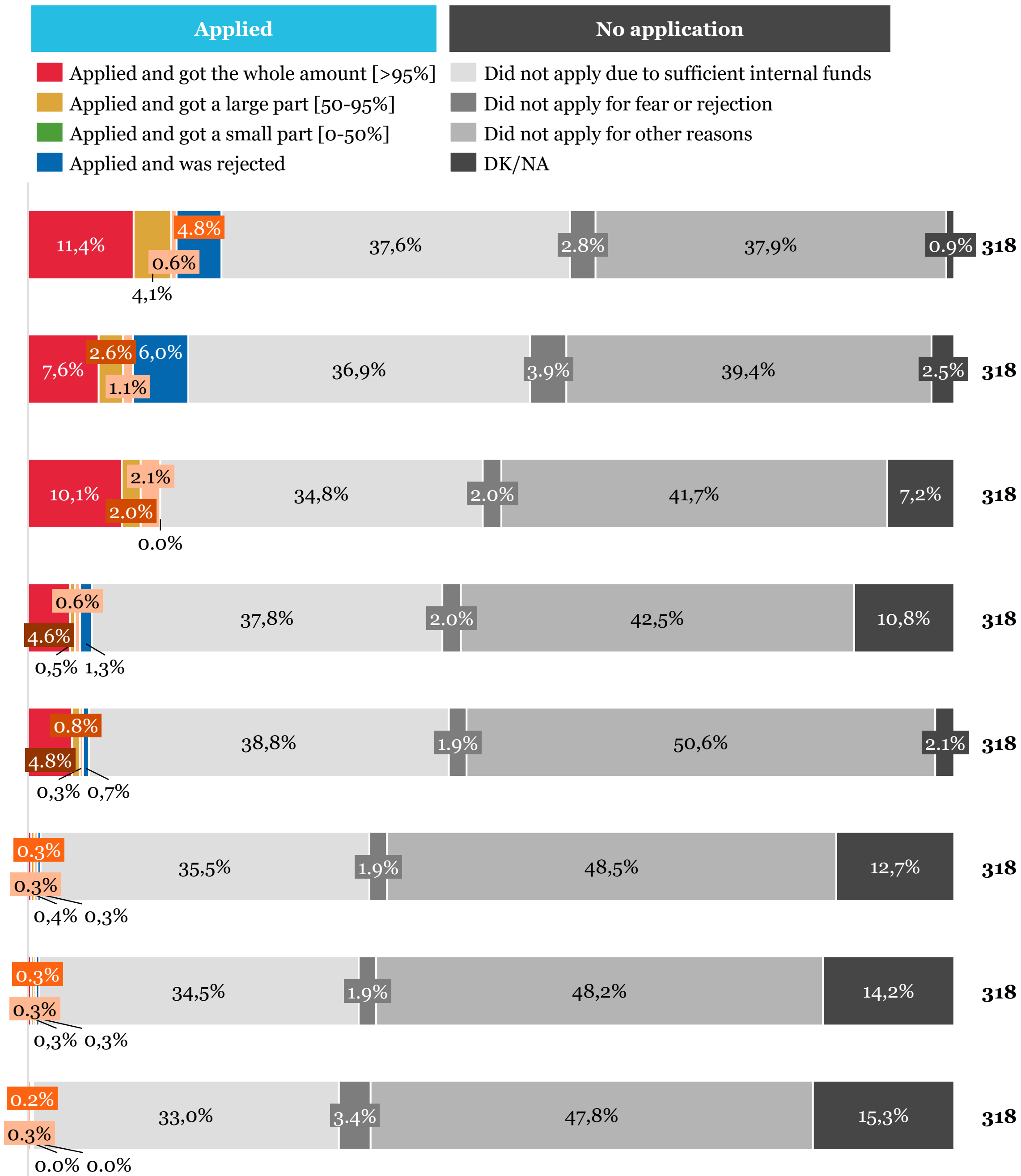
*Figure 49. MSME rate of success when applying for finance*

**For each of the following ways of financing, could you please indicate whether you: applied for them over the past 6 months; did not apply because you thought you would be rejected; did not apply because you had sufficient internal funds; or did not apply for other reasons?**




*Source: PwC MSME survey*

## 5.5 Main providers of finance

Overall, MSMEs had a median of one finance supplier, who for 41% of respondents was a bank. Rural businesses stood out by having two median suppliers, which for 60% of the respondents were banks. Hence, rural business conjure a more conservative relational profile than businesses operating in an urban environment.

*Figure 50. Number and type of main financing provider*

| | | With how many providers do you currently have an open relationship (i.e finance instruments) with? | Is your main financing provider a bank? |
|---|---|---|---|
| | | **Median (# suppliers)** | **% respondents** |
| All companies | Overall | 1 | 41% |
| Company size | Micro | 1 | 40% |
| | Small | 3 | 47% |
| | Medium | 2 | 42% |
| Environ-ment | Urban | 1 | 36% |
| | Rural | 2 | 60% |
| Gender of Manager | Female | 1 | 44% |
| | Male | 1 | 41% |
| Export oriented | Is Exporting | 1 | 37% |
| | No Exports | 1 | 38% |
| Introduced a form of innovation | Innovative | 1 | 39% |
| | No Innovation | 1 | 43% |

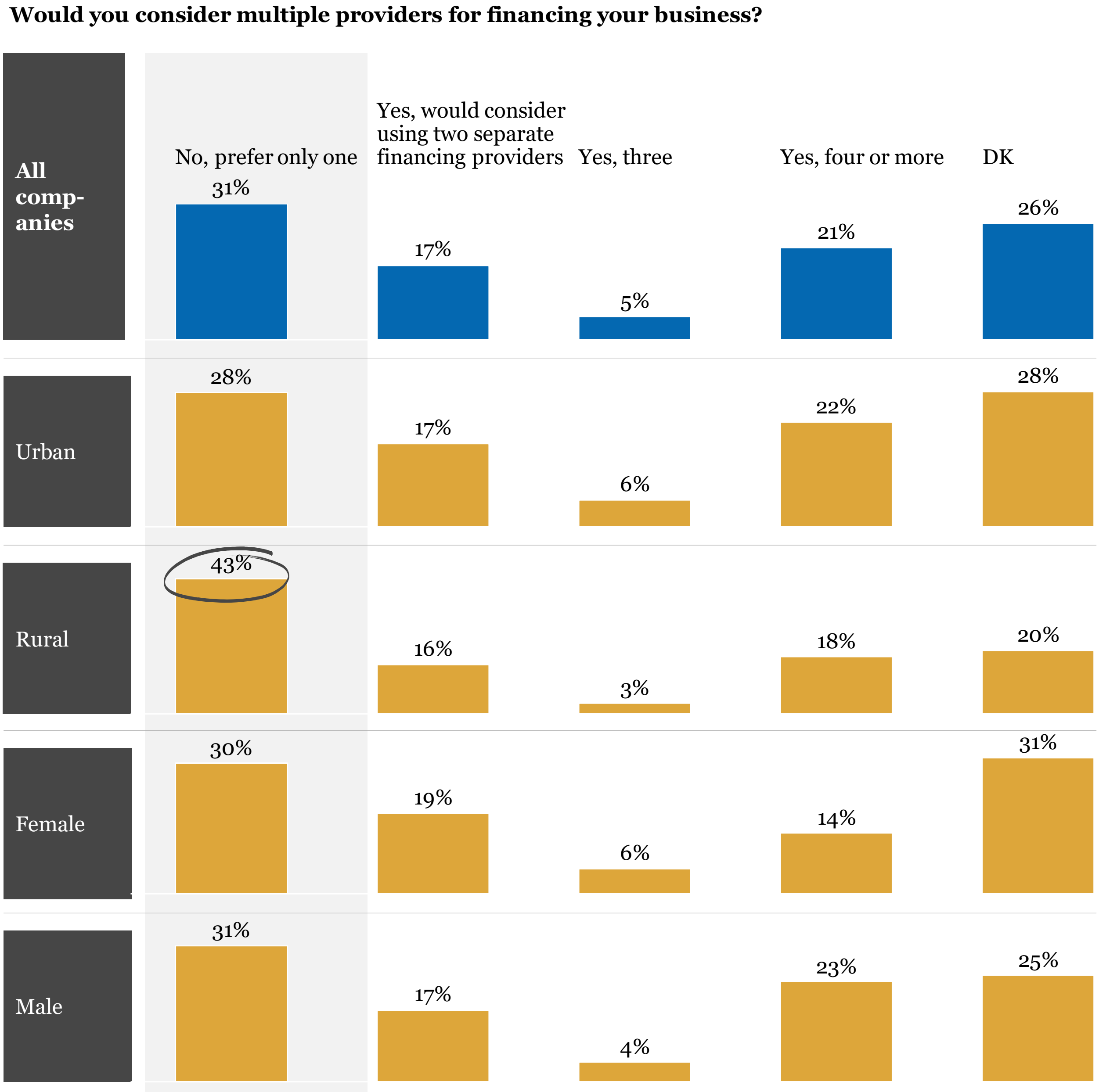
*Source: PwC MSME survey*

Analysing the considerations for using multiple providers (Figure 51), most companies would consider two or more suppliers (43%), while almost a third (31%) would prefer only one supplier.

Rural businesses had the highest preference for only one supplier (43%) – well above urban businesses (from which only 28% would prefer only one supplier). This result highlights the orientation towards long-term relationship development for rural businesses, which can be underpinned by a lower access to finance in these environments. A lower provider presence in rural areas translates to higher search costs for rural MSMEs.

Also, female-managed businesses were slightly more conservative and displayed a more relationship-based orientation – more considering two providers (19%) than four or more providers (14%). This was opposite to male-managed businesses, from which a lower share (17%) preferred only two providers than those that preferred four or more (23%).

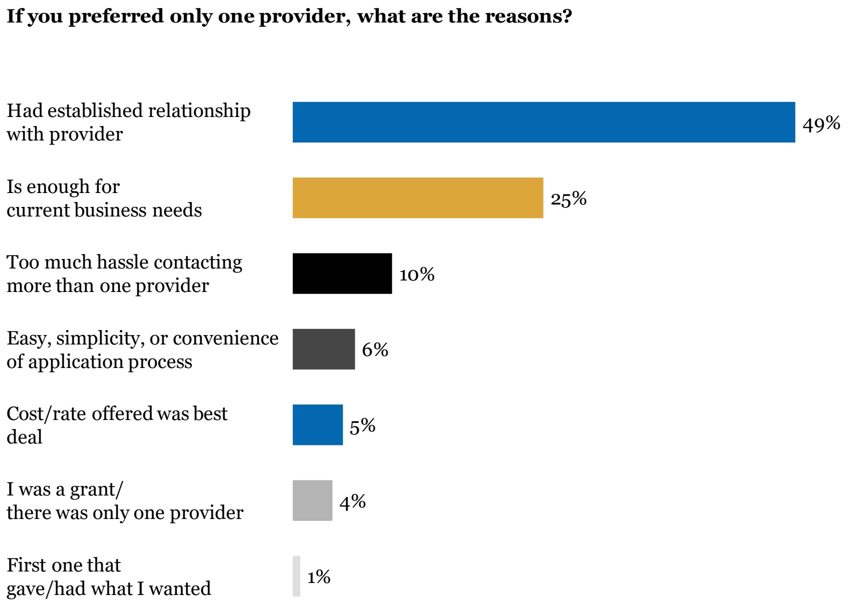
*Figure 51. Number of financing providers considered*




*Source: PwC MSME survey*

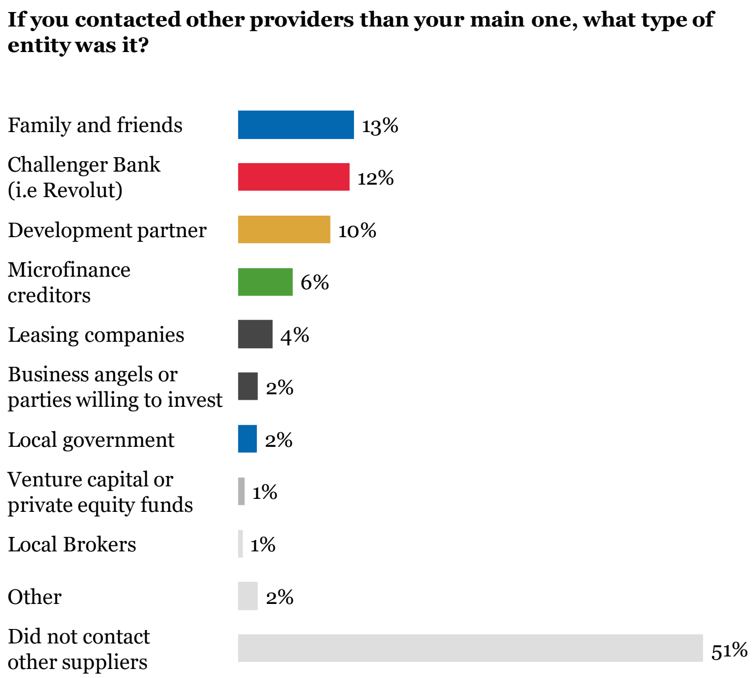
Previous assumptions are confirmed by MSMEs, which place the existence of an established relation with the provider on top of the list of reasons preferring a sole provider (49%, Figure 52), along with being enough for current business needs (25%). From those that contacted other providers (Figure 53), family and friends accounted for 13%, challenger banks for 12% and development partners for 10%, highlighting the importance of alternative financing channels in bootstrapping the businesses. Future policies could envision more room for diversification of finance suppliers.

*Figure 52. Reasons for preferring a sole financing provider*




*Source: PwC MSME survey*

*Figure 53. Other financing providers contacted, aside from main one*




*Source: PwC MSME survey*

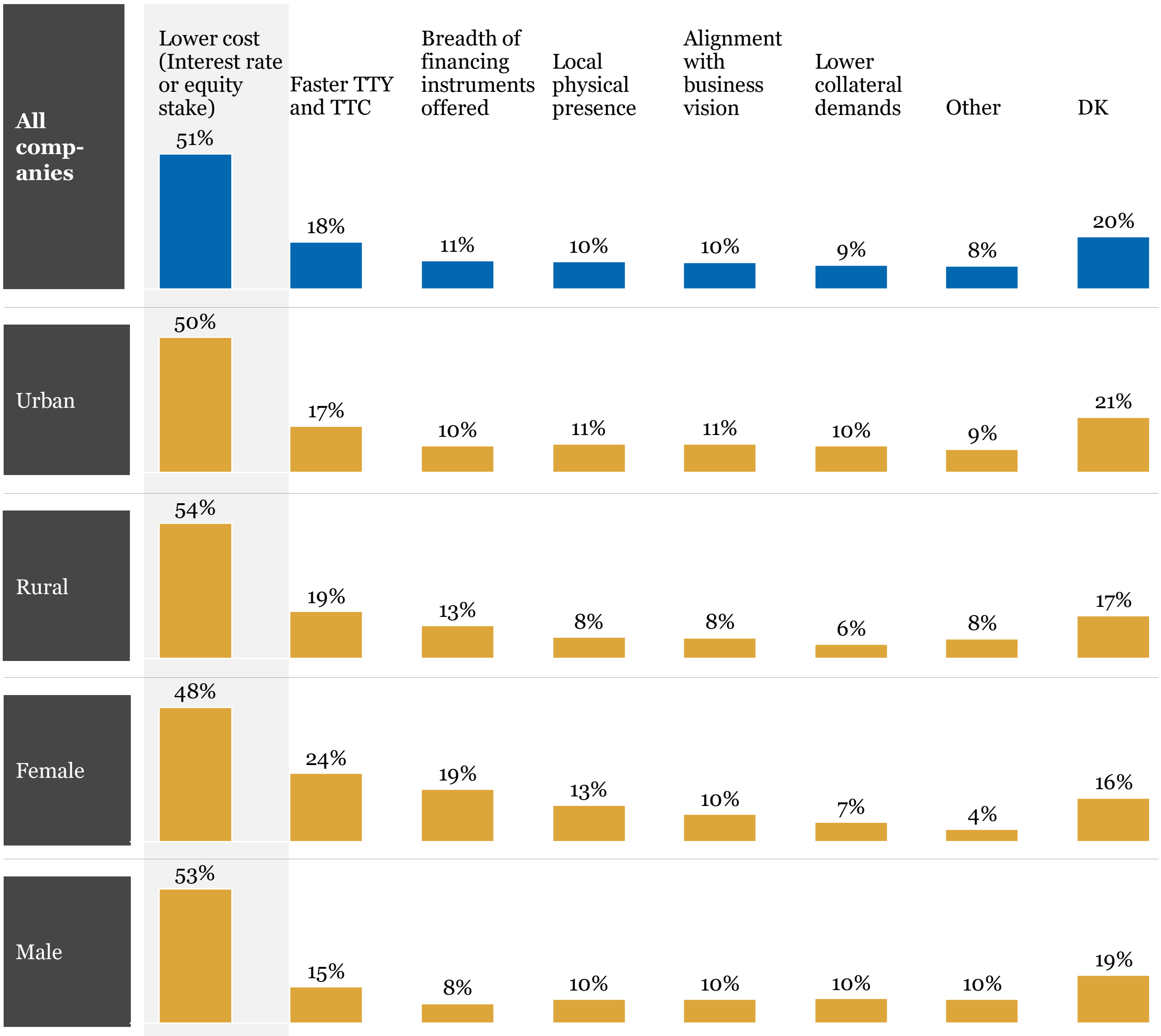
Finally, in examining the factors that would enable the consideration of alternative financing providers – one can read the aspiration of MSMEs towards reasonable cost and overall terms (time of service, presence, etc.). The main factor that stands out clearly is a lower cost (either interest rate or lower equity stake), which was indicated by 51% of MSMEs overall as the main reason they would consider an alternative provider.

The burden of cost appeared to weight more on rural businesses, out of which 54% cited a lower cost as a potential for changing providers, compared to 50% for urban companies.

Female-managed businesses were revealed to be more demanding – with 24% citing faster TTC and TTY (versus 15% male-managed businesses)– further 19% citing breadth of financing instruments (versus 8% male-managed businesses) – and 13% citing local physical presence (versus 10% male-managed businesses)

*Figure 54. Factors in considering alternative financing providers*

**What are the factors that would make you consider an alternative financing provider?**




*Source: PwC MSME survey*

# 6 Policy recommendation guidelines

According to the questionnaire responses, 35% of the interviewees indicated the bank loan as the preferred type of external financing when needed. The main limiting factor in obtaining funding is the interest rate, or the price is too high (38%). Respectively, special attention should be paid to the recommendations regarding traditional financing, which should contain recommendations that target these issues.

At the same time, the presented figures could be different if proper alternatives for traditional asset-based financing would have existed. That means that other blocks of recommendations will focus on alternative financing sources, mainly supply-chain financing, and equity financing.

It is also important to ensure that MSMEs financing is available along its entire lifecycle. Even if the trend of financing companies persists in the start-up phase, assuming that it is the phase with the greatest need for alternative financing (banks tend not to grant loans due to lack of information demonstrating the company's financial liability, for instance), it is essential to target with alternative financing the other stages of a company's development, such as scaling up, especially if you want to focus on exporting or testing creative production directions, for example.

Thus, six groups of policy proposals will be presented below, as following:

- Enhance traditional asset-based finance instruments
- Developing alternative asset-based finance instruments
- Boosting Equity Financing and other Capital Market instruments
- Government direct supporting
- Increasing the level of financial literacy and access to information
- Transnistria

In the end, UNDP Programmatic entry points will be presented for a better understanding of the UNDP's best involvement in financing SMEs.

## 6.1 Policy recommendations

**Enhance traditional asset-based finance instruments**

*Basel III*

The Basel III package is widely discussed among experts, with fewer references to its effect on small and medium-sized enterprises. It is a set of international banking regulations developed by the Bank for International Settlements to promote stability in the international financial system and comes in response to the global crisis of 2007-2008.

The Republic of Moldova initiated the implementation of the Basel III package[43], thus skipping BASEL II, which contained, among other things, several actions and derogations from the general rules to facilitate access to finance for small and medium-sized enterprises (currently, the Basel I package is in force).

Three main changes come with Basel III: raising the minimum capital requirements, introducing liquidity ratios (liquidity coverage ratio and net stable funding ratio), and introducing a leverage ratio.

Based on the World Bank Group research[44], Basel III implementation had a moderately negative effect on MSME assessment to finance in EMDEs). Interestingly, MSMEs initially on the fringes of financial inclusion could have been affected more adversely than MSMEs already using bank credit. Moreover, the Basel III effect on MSMEs that already used credit could have been insignificant. This finding dovetails with practitioners' view that once

[43] https://www.bnm.md/ro/content/strategia-de-implementare-standardelor-bsel-iii-prin-prisma-cadrului-legislativ-european
[44] https://documents1.worldbank.org/curated/en/441951575300867782/pdf/Basel-III-Implementation-and-SME-Financing-Evidence-for-Emerging-Markets-and-Developing-Economies.pdf

MSMEs have an established relationship with a bank, they typically do not face problems in renewing credit. One channel for the negative effect of Basel III could arise because of banks shifting toward more unsecured (presumably short-term) lending and, on secured lending, banks requiring much more collateral from MSMEs.

According to Friedrich-Ebert-Stiftung report[45], to guarantee the stability of MSME financing concerning Basel III it is crucial to consider the implementation of the package as an EU Directive (as it was with Basel II[46]). In that way, national legislators would have the opportunity to adjust the Basel III provisions to the specific conditions of the national market. Also, the regulations must be adapted to the typical SME financiers, which in terms of size and business model sometimes differ considerably from the large institutions that are the real addressees of Basel III.

It should also be considered a new "SME compromise" analogous to Basel II so that the capital requirements for SME loans are not raised. Based on the TRÉSOR-ECONOMICS paper[47], Basel II is designed to ensure that small and medium-sized enterprises, which are theoretically riskier than big firms, are not hindered from accessing credit. Given the same probability of default and loss given default, bank loans to SMEs are subject to lower capital requirements than claims on larger firms. SME risk is highly idiosyncratic, which is linked to industry, local and human-specific factors that banks can diversify by pooling many claims on SMEs in their loan portfolios. The capital requirement for SME claims is estimated to be some 30% lower than Basel I. However, regulatory capital varies significantly with credit risk. This should encourage banks to price in closer accordance with company risk, something they do to a relatively small extent in France today. The observed loan pricing dispersion is far lower than the level that would have been expected if banks were lending to riskier-than-average firms and passing on the cost of risk in their margin.

The recommendation of the team to the National Bank of Moldova is to continue the implementation of Basel III by taking into consideration some special provisions for SME (like it was done worldwide for Basel II) and to adjust it due to local realities (as EU countries do it with an EU Directive).

*The procedures*

One of the reasons SMEs prefer alternative financing sources is linked to complicated and exhausting procedures. Some of those procedures are coming from the National Bank of Moldova regulations and recommendations, others are coming from the prudence attitude of the banks.

There are a lot of open data and interoperability possibilities that could lead to more accessible and proper risk assessment that banks could use instead of traditional and conservative procedures (mainly, paper-based) and to the digitalization of the processes that are stand behind. The idea should be to not disturb the client with any extra information if it is not needed and to facilitate the implementation of e-solutions in assessing the risks and providing services. For example, Fagura, a local fintech, has developed an intelligent credit scoring in real time of start-ups and MSMEs that is minimising the interaction between firms and platform that is providing the credit scoring (https://scoring4business.com). The platform is combining public services data via MConnect, a governmental platform, reports from bureau of credit history and real incomes data from banks. Banks could implement similar approaches that would reduce the burden of time-consuming procedures.

It is also essential to implement regulations on electronic know-your-customer distance identification (e-KYC) to ensure more flexible distance identification of customers based on best EU and regional practices and the increase of financial inclusion of MSMEs located in less accessible places. The KYC require companies to verify the identity and suitability of their clients and suppliers abroad to tackle money laundering.

The recommendation will be to the National Bank of Moldova to make an in-depth assessment and to review the existing procedures that are imposed on the banks and other payment service providers to facilitate the digitalization of the processes and to ensure risk assessment based on interoperability and use of open data with the minimum requirements from the clients.

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[45] https://library.fes.de/pdf-files/managerkreis/08528.pdf

[46] Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast) - https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex%3A32006L0049

[47] https://www.tresor.economie.gouv.fr/Articles/a6c7983c-c94f-4d1d-9625-9cc5f79b3723/files/47b551a4-468e-40ef-aab5-cc74e28a4d9c

**Developing alternative asset-based finance instruments**

According to the Businesseurope.eu portal[48], one way to improve access to credit for smaller companies is to promote the diffusion of the "supply chain finance". The chain of suppliers of leading companies that have stable contractual relationships with solid head-chain companies can access the credit on their own terms.

*Factoring*

There are two main categories of factoring, based on the transfer of risk-non-recourse and recourse contracts. In recourse factoring, the factor has a claim against the firm for any account payment deficiency. Under non-recourse factoring, the factor assumes full title to the accounts and bears the default risk without recourse to the firm.

According to World Bank Group Report[49], MSMEs will typically decide to factor their receivable assets for a beneficial cash flow situation, because cash is immediately generated, as opposed to waiting for buyers to submit their payments. Doing so is particularly beneficial because financing and a consistent cash flow are among the biggest challenges that MSMEs face in operating their business, and factoring can provide relief in numerous ways. Money is often needed urgently so the business can grow, and a low amount of working capital may jeopardize the business' ability to satisfy orders from customers. While MSMEs can utilize traditional methods of seeking bank loans, lending standards tightened following the financial crisis of 2008. Factoring represents a solution for MSMEs to boost their cash flow because they can receive working capital financing, albeit at a discount, at a much faster rate. MSMEs can essentially outsource their credit collection process to the factor, which will also involve credit checks on the buyers. Furthermore, factoring is not technically a loan, which means that the money received will not be added to the MSME's debt or tie up a company's collateral, which it may need to secure a traditional bank loan.

In Moldova, there are few financial institutions that are offering both non-recourse and recourse factoring contracts. The factoring market has developed significantly in the past few years with no need for collateral being one of the most important developments. Nonetheless, the cost of factoring remains quite elevated. For example, at the time of writing this report, the total cost would amount to at least 5-6% for a 60-day factoring service. The earnings before tax as a share of revenues for MSMEs oscillated between 4.7% and 7.9% in 2016-20 period. Consequently, the 5-6% cost of factoring services would probably represent at least one third of the potential pre-tax profit margin.

The cost of factoring could be decreased if the government or development partners would cover or share so some extent the non-payment risk. Therefore, a guarantee fund of factoring contracts for specific industries, that are mainly focused on exports, would be crucial for the development of MSMEs. At the same time, the business associations might promote the idea to create a conglomerate of export focused MSMEs that would apply together for a single factoring contract sharing the burden of fixed costs. This is also an element that development partners could facilitate.

Factoring is exempted from VAT by being financial services according to Tax Code, Still, there are some challenges regarding tax regime of factoring with focus on corporate tax deductions of the difference between the cost from the invoice and the cost of factoring the invoice. Therefore, the recommendation will be to the Ministry of Finance to adjust the Tax Code to ensure that there are no impediments in developing of the factoring instrument of financing, including the issue with deductions mentioned above. **Boosting Equity Financing and other Capital Market instruments**

According to Businesseurope.eu portal[50], facilitating access to equity markets for MSMEs has been a critical priority of EU policy in the past few years. High costs and the complexity of capital markets regulation are among the main reasons MSMEs are hesitant to seek resources in capital markets.

[48] https://www.businesseurope.eu/publications/new-eu-sme-strategy-50-actions-make-it-work
[49] https://www.doingbusiness.org/content/dam/doingBusiness/media/Special-Reports/improving-access-to-finance-for-SMEs.pdf
[50] https://www.businesseurope.eu/publications/new-eu-sme-strategy-50-actions-make-it-work

Nevertheless, equity financing remains a great alternative source of financing businesses, mainly if a particular focus exists on MSMEs.

*Crowdfunding*

Participatory financing, and, in general, the promotion of a suitable regulatory environment for the implementation of crowdfunding financing instruments, comes to support both the business environment and local initiatives, social entrepreneurship, and start-ups.

The EU market for crowdfunding is underdeveloped compared with other major world economies[51]. For many years, one of the biggest hurdles faced by crowdfunding platforms seeking to offer their services across borders has been the lack of common rules and diverging licensing requirements across the European Union. This has resulted in high compliance and operational costs, which prevented crowdfunding platforms from efficiently scaling the provision of their services. As a result, small businesses had fewer financing opportunities, and investors had less choice and faced more uncertainty when investing cross-border.

On 10 November 2020, the Regulation on European Crowdfunding Service Providers (ECSP) for business[52] entered into force. After a transition period of 12 months, the rules will enter into application on 10 November 2021, applying directly across the EU. The initiative was part of the European Commission's fintech action plan and the mid-term review of the capital markets union plan.

The regulation lays down uniform rules across the EU to provide investment-based and lending-based crowdfunding services related to business financing. It allows platforms to apply for an EU passport based on a single set of rules, making it easier for them to offer their services across the EU with a single authorization.

The new rules are expected to increase the availability of this innovative form of finance, which will help companies seeking alternatives to bank financing. Investors on crowdfunding platforms, meanwhile, will benefit from an aligned and enhanced investor protection framework, based on:

- clear rules on information disclosures for project owners and crowdfunding platforms
- rules on governance and risk management for crowdfunding platforms
- strong and harmonized supervisory powers for national authorities overseeing the functioning of crowdfunding platforms

The Republic of Moldova does not have any regulations on crowdfunding, even though discussion on elaborating a framework has existed for four years. It is also a lack in understanding which authority should supervise this way of financing (National Bank of Moldova or National Commission for Financial Market).

The recommendation would be to adopt as soon as possible a national framework on crowdfunding following the EU regulations to ensure the full interoperability and similitude of procedures with the European market.

The legislation alone is unlikely to boost equity crowdfunding environment in Moldova. Therefore, development partners should focus on enhancing the ability of MSMEs to develop attractive pitches and business plans that would convince investors to invest. The risk aversion and reluctance of entrepreneurs in Moldova to accept external involvement in their capital structure and eventually management is a cultural element that can be moderated. Hence, running a project where development partners along small investors would invest via equity crowdfunding platforms on selected MSMEs, graduates of ODIMM programs for instance, would be our recommendation to shape the entrepreneurial culture.

It is also important to clarify all tax and accounting aspects of crowdfunding to make it easy and attractive for MSMEs to use this opportunity of funding their activity. It refers to donation regime that it is quite restrictive since only donations to particular forms of activity is deductible for individuals and companies. Some tax incentives could also be considered to stimulate investors of crowdfunding schemes (a special easier regime on dividends or on other benefits that comes from crowdfunding investments).

[51] https://ec.europa.eu/info/business-economy-euro/growth-and-investment/financing-investment/crowdfunding_en
[52] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R1503

For example, according to European Union Commission Report on Effectiveness of tax incentives for venture capital and business angels to foster the investment of MSMEs and start-ups (EU Report)[53], Belgium's tax treatment of crowdfunding loans is the only tax incentive in the country sample that is specifically targeted to investors in MSMEs through crowdfunding platforms. The scheme provides a withholding tax exemption for the first €15,000 per annum of interest income received by investors through a crowdfunding platform. In order to qualify for the exemption, the investor must make a loan through a recognised crowdfunding platform with a term of at least four years and with interest paid annually. Crowdfunding and fintech is changing the nature of investment in MSMEs and start-ups and is providing market access to new profiles of investor. A tax exemption of this nature reduces the tax compliance costs of crowdfunding, which can promote greater investment. It could also reduce the administrative burden related to investigating cases of small-scale tax evasion, such as non-declaration of interest income from crowdfunding investments.

The practice of the interaction between government and alternative financing, with a major involvement of the digital component, is also worth to be mentioned. for example, Bpifrance (the French public investment bank) has taken an active role in supporting debt and equity crowdfunding by launching a crowdfunding portal in 2013[54]. The portal works as a search engine for crowdfunding platforms, which are selected by Bpifrance and comply with existing regulation, in addition to promoting good practices. The site intends to strengthen industry networks and make investment easier for the large public, which can select projects through a simple interface. Bpifrance simply manages the platform and does not intervene in the design/selection of projects or in the fundraising process. A similar instrument could be also developed as a basis of the Organization for Small and Medium Enterprises Sector Development.

*Private Pension Funds*

Private pension funds could also become an efficient instrument to support the development of MSMEs. The legislative framework for potential private pension funds is in the place. However, the small economy and illiquidity of financial markets are weighing on the development of a private pension fund. Hence, the Government should combine its efforts with private sector to initiate the first semi-private pension fund.

The pension fund should have at least EUR 20mn worth of assets to cover its annual operating costs. These initial funds could come from the government and development partners, which ultimately would attract private funds. The government could direct 1-2p.p. of annual salary increase of public employees to the pension fund. Consequently, the private sector could also offer to their employees the possibility to redirect some of their salaries to the fund with the condition that those investments are exempted from taxes if are kept for at least 7-10 years. Additionally, the pension fund could borrow cheaply from development partners and use the funds for investments.

The portfolio of a potential pension fund should be diversified where 70-80% could be invested in Moldova and 20-30% abroad. Out of those 70-80%, the pension fund could allocate around 5-10% to the investment in promising MSMEs. Those would be either long-term equity financing or loans for at least 7-10 years. This should cover the long-term financing gap that the majority of MSMEs is currently facing in Moldova.

*Private Equity Fund*

One of the most effective ways to diversify the supply of financing and "mature" it in the sense of long and cheaper loans is to develop the capital market and the relevant players to invest in this market. This refers to the creation of a regulatory framework regarding the existence of the activity of investment funds (Venture Capital and Private Equity). At European level, the development of these alternative financial instruments has been given a special place in the last decade, along with the digitization of financial services.

A Moldovan private equity fund would face similar concerns as private pension fund described above. Therefore, in order to make the existence of these funds attractive, the Government should create such a fund in collaboration with international donors and several private investors and act as a qualified investor in this regard,

[53] https://op.europa.eu/en/publication-detail/-/publication/d4cd684a-6cf8-11e7-b2f2-01aa75ed71a1
[54] https://www.oecd.org/finance/alternative-financing-instruments-for-ASEAN-SMEs.htm

thus ensuring the refinement of the regulatory framework based on national specifics, by being inspired "from the first source", but also the identification of the most efficient and most suitable tax incentives for these forms of activity and financing of the business activity.

According to EU Report mentioned previously, tax incentives reduce the effective marginal cost of investing in smaller companies. As a result, in theory more investors should be willing to supply more capital to smaller companies through venture capital funds and/or as business angels benefitting from tax incentives, and at lower expected before-tax rates of return. The same report stated that across the EU-28, and in eight additional countries, 19 of the 36 countries examined implement tax incentives targeted to VC and BA investors in start-ups and MSMEs, operating a total of 46 different schemes between them. Based on the European Trade Association for Business Angels, Seed Funds, and other Early-Stage Market Players (EBAN) Compendium[55], tax incentives specifically available for venture capital, private equity and start-up angels can be found in twelve countries: Belgium, France, Ireland, Italy, Germany, Lithuania, Luxembourg, Portugal, Slovenia, Spain, Turkey and the United Kingdom, where this type of investment seems to receive more attention from the government. These incentives include government guarantees, reductions on tax rates or tax credits.

For example, Germany's Venture Capital Grant (Invest) incentive is ranked at joint fifth in the country sample and scores strongly across majority of the benchmark variables. The aim of the incentive is to provide sustained support to the venture capital market in Germany by private investors. The scheme offers both individual and corporate investors an upfront relief in the form of a grant of 20% of the investment sum on the acquisition of shares. Structuring upfront relief as a grant, rather than a tax credit, could overcome the potential obstacles to cross-border investment generated by requirements for investors to have sufficient tax liabilities in the jurisdiction to absorb the tax credit. There is also an exit relief that applies to individual investors only. The scheme provides detailed guidance on which businesses and investors qualify for relief.

Another example could be the UK VCT scheme or Belgium tax shelter for investments in start-ups. The UK VCT offers upfront relief and relief on gains for investors, as well as tax-transparent treatment of investment returns for the VCT itself. It employs a relatively sophisticated set of qualifying criteria, and its fiscal cost is monitored and publicly disclosed on an annual basis. The Belgium tax shelter for investments in start-ups grants qualifying investors an upfront tax credit of 30% of a maximum investment of €100,000 per person for investments in MSMEs. However, the rate of tax credit is increased to 45% for investments in micro-enterprises. In offering a differentiated rate of tax credit, the scheme recognises the difference in the scale of investment risk between MSMEs and microenterprises. This can be argued to create incentives to investment that are responsive to the market failures present at different stages of the MSME growth cycle.

Depending on the purpose pursued by public and private investors and international donors, different types of reductions may be applied in this regard.

*Business angels*

Business angels play an important role in the economy. In many countries[56], they constitute the second-largest source of external funding in newly established ventures, after family and friends. They are increasingly important as providers of risk capital and contributors to economic growth and technological advances. Besides traditional capital, offered by others, angel investors provide business management experience, skills and contacts for the entrepreneur. Experienced angels also know that they may have to wait for a return on their investment. They can, therefore, be a good source of 'smart and patient' capital.

On European level, tools to promote business angel investment are the responsibility of EU countries. They should create incentives for private individuals who are willing to invest in enterprises. This should include the use of public funds for co-investment with business angels.

The same EBAN Compendium that was mentioned previously shows us that in France, for instance, business Angels benefit from an income tax reduction of 18% of the amount invested with the limit of EUR 50,000 (EUR 100,000 for married couples). The investment must be held for at least 5 years and the company must be an MSME. In addition, individuals eligible for the wealth tax can invest up to EUR 90,000 and reduce the wealth

[55] https://www.eban.org/wp-content/uploads/2017/06/Compendium_FISCAL_2016_Draft_V4.pdf
[56] https://ec.europa.eu/growth/access-finance-smes/policy-areas/business-angels_ro

tax by 50% (thus a maximum wealth tax deduction of EUR 45,000). This tax break also applies when investing in MSMEs across the 27 EU Member States. The wealth tax reduction and the income tax reduction mentioned above cannot be applied to the same single investment. In Italy, capital gains realised by business angels (resident and non-resident) not engaged in a business activity to which the participations are effectively connected, are exempt 50.28% of their amount in taxes. The remaining 49.72% is included in the taxable income of the individual shareholder, subject to individual income tax levied at progressive rates. It is possible to offset such gains with the losses realised on the disposal of participations of the same category. The Turkish Business Angel Scheme requires the investor to obtain an Angel Investor License, which is valid for five years, from the Ministry of Finance. Investors must meet income/wealth and relevant business experience criteria in order to obtain the license. While the administrative burden of obtaining an Angel Investor Licence may deter some prospective investors, it could promote investment quality by reducing the ability for non-professional or passive investors to participate.

Going worldwide, one of the most scored schemes of incentives is considered the Japan Angel Tax System[57] which allows investors to deduct a proportion of the value of the investment from their income tax base at the time of investment and to carry forward capital losses realised on the disposal of qualifying investments for a period of three years. Under the baseline tax system, losses realised on the disposal of unlisted shares are offset against gains from the disposal of unlisted shares in the same year. Therefore, the loss carries forward provisions in the Angel Tax System introduce a certain degree of flexibility, which may be more favourable to the investor. The literature on the role of tax incentives in reducing investor risk aversion highlights the role of upfront tax relief and loss relief. However, there are concerns that the combination of an upfront tax credit and favourable tax treatment of losses may not generate sufficient alignment of interests between investor and investee. Offering both forms of tax relief over and above the baseline tax system can address downside investment risk from two angles but should be accompanied by supporting anti-avoidance provisions and design features that would promote active ownership.

Republic of Moldova does not develop any regulations on angel investment, including any tax incentives or other stimulus to it. Still, an association of business angels is on its way which can serve an advocacy force in active dialogue with authorities in this regard.

There is a need to develop all necessary regulations, this form of financing being an important source of financing in pre-launch phase of MSME.

**Government direct supporting**

*Government Developing Fund*

Many countries have taken actions to enable MSMEs to diversify sources and instruments to meet their financing needs[58]. For example, the formation of special funds initiated by the public sector has contributed to filling the gap in equity needs in the United Kingdom and other countries. In Kenya, the government has set up the Kenya Micro, Small, and Medium Enterprise Competitiveness Project in collaboration with the World Bank, which has led to the diversification of MSME funding. The Fund has deep knowledge of local investees and has provided advisory services coupled with financial investment to MSMEs, a key success factor for the project.

The team proposes to create the Moldovan Government Developing Fund (MGD Fund) based on Organization for Small and Medium Enterprises Sector Development (ODIMM) and former Credit Line Directorate (now part of PI "External Assistance Program Management Office").

The MGD Fund will be fulfilled from the budget money and from the contributions of international donors. There should be implemented two (traditional) forms of financing: grants and lending depending on the moment in the MSMEs' development and the sector it is representing.

Besides two existing models of helping MSMEs with access to finance (guarantee of bank credits and lending of donors' money on conditions), the MGD Fund should also be focused on other stimulative instruments, such as:

[57] https://op.europa.eu/en/publication-detail/-/publication/d4cd684a-6cf8-11e7-b2f2-01aa75ed71a1
[58] https://www.g20-insights.org/policy_briefs/digital-innovation-can-improve-financial-access-for-smes/

- subsidizing interest on loans provided by banks and other accredited lending institutions.
- extending grace period. This support should be provided in two different ways: (i) by offsetting a grace period in addition to that provided for in the lending institution's loan agreements with the subsequent payment of the costs offset to the Fund after the end of the credit period; (ii) by subsidizing a grace period in addition to that provided for in the loan agreement for companies operating in areas considered strategic.
- creating lending crowdfunding platforms (as it was described previous in *Crowdfunding* section).

There should also be designed some special lines on a different level of the company's development. For example, if an MSME would like to start a new production line, invest more in digitizing basic processes, or automate a line to increase productivity further, or focus on exporting its production, and is at the stage of scale-up or even maturity, it could apply to this special line of "development over time," not just in the start-up phase and obtain affordable funds.

It is also important to develop a special technological line that could support the development of start-up ecosystems. Some technical assistance should be provided to the Ministry of Economy to fulfill this need.

More than that, there should be a maintained focus on women's entrepreneurship and extend it to special needs people to ensure a more extensive inclusion and better chances for as many social categories as necessary.

*Corporate Tax Relief*

One of the primary sources of financing MSMEs is personal financing or" "internal financing" – when stakeholders decide to reinvest money instead of paying dividends. This could be a valuable source of cheap funding, especially if the State incentivizes it.

There are a lot of examples when countries decide to implement zero or a diminished corporate income tax for reinvested profit for a limited time to boost the development of one specific sector or help companies in tough times. Still, some countries decided to maintain zero rates for reinvested profits for years for all economies and received an excellent result in development focusing on IT technology and Digitalization (Estonia).

To support alternative sources of financing, zero rates for reinvested profit should be implemented, as other previous research[59] recommends also.

*VAT Exemptions*

As mentioned before, many governments set a sales threshold below which MSMEs are exempt from paying value-added tax (VAT). Raising these exemption thresholds can reduce the tax burden for MSMEs and allow them to invest the money saved in business growth. Thresholds vary widely as the UK gives a comparatively lenient example, whereas Denmark is at the other end of the spectrum. In Mexico, Sweden, and Spain, there is no threshold at all.

There have been a lot of discussions regarding the rising of threshold since the moment it was introduced. Some proactive actions were taken in time, but the last rising took place in 2018, and this practice needs to continue.

**Increasing the level of financial literacy and access to information**

Lack of credit information, according to World Bank Group paper[60], is a factor that contributes to the constraints faced by MSMEs as assessing their creditworthiness represents a unique challenge.

That’s why it is a need in provide MSMEs with access via a single-entry point for all enquiries on local financing opportunities, called information integrator, that should be under the supervision of ODIMM.

The *Access to Finance Information Aggregator* should be organized in the way in which to help potential borrower or grant beneficiary to what exactly (s)he needs and is looking for through the line of questions from

[59] https://consecon.gov.md/en/2020/12/04/rezultate/
[60] https://www.doingbusiness.org/content/dam/doingBusiness/media/Special-Reports/improving-access-to-finance-for-SMEs.pdf

decision tree that will bring person to exactly the right potential available sources of financing the needs he or she have.

It should also offer the possibility to filter from an available database the information by phase of development, type, donor, and other relevant cu beneficiary criteria.

From the other hand, it should be ensuring a clear system of updating and fulfillment of the information to not admit the situation when the interested one will get confused about the results of the research.

The portal should also give the possibility to subscribe to interested sections and to special offers provided by lenders and other donors to be updated and to react promptly if there are some good offers to his/her activities.

The other tool that should be on the Access to Finance Information Aggregator is *Cost of Finance Calculator for MSMEs*, that should operate on intuitive base and should ask question to help beneficiary to understand what the need is exactly and to simulate the potential cost of raising fundings.

It should also show in the results box if there are any possibility of co-financing from the state of the activity (s)he is trying to finance and other relevant information that could help beneficiary to understand better in potential impact and alternatives that exists in his/her situation.

There is also a need in developing *National Information Campaign* to spread as much as possible the word about the possibilities that exists in finance the business activity for MSMEs and the tools that exists to get more informed and updated on this.

**Transnistria**

Based on the information received during the interviews (during which the Transnistrian Chamber of Commerce and Industry was a main reference), MSMEs in Transnistria did not have access to financing from Moldovan banks. The main reasons being due to the difficulties in securing the pledge in the region. The financial institutions present in the region cannot access cheaper funds through special credit lines offered by international donors, since they are not internationally recognized, and there may be various views on the governance of the allocated funds.

A reported problem was related to the difficulties registered in opening accounts in banks in the controlled territory of the Republic of Moldova, requiring the region's authorities' approval.

In this context, it would be welcome to include in the negotiation package in the "5 + 2" format directions to simplify and facilitate the interaction between small and medium enterprises in the Transnistrian region with financial institutions in the controlled territory of the Republic of Moldova.

**Create technological innovation funds**

Technical assistance should be provided to the Ministry of Economy to design a technological fund that could support the development of start-up ecosystems.

## 6.2 UNDP Programmatic entry points

UNDP's contribution to achieving the goal of increasing access to finance for MSMEs can be summarized as follows:

### Entry point No.1

**TITLE: Enhance traditional asset-based finance instruments**

**Justification:** As it was shown in Figure 29 of the Report, bank loans remain dominant in the external financing of SMEs. Since the Republic of Moldova initiated the implementation of the Basel III package, thus skipping BASEL II, which contained, among other things, several actions and derogations from the general rules to facilitate access to finance for small and medium-sized enterprises (currently, the Basel I package is in force), it will generate an extra compliance cost to banks and SMEs to adjust to the new rules. It is widely discussed that to guarantee the stability of MSME financing concerning Basel III, it is crucial to consider the implementation of the package as an EU Directive (as it was with Basel II). In that way, national legislators would have the opportunity to adjust the Basel III provisions to the specific conditions of the national market. Also, the regulations must be adapted to the typical SME financiers, which in terms of size and business model sometimes differ considerably from the large institutions that are the real addressees of Basel III.

On the other hand, one of the reasons SMEs prefer alternative financing sources is linked to complicated and exhausting procedures. Some of those procedures are coming from the National Bank of Moldova regulations and recommendations; others are coming from the prudence attitude of the banks.

**Policy content:**

- Adjusting the legislation according to Basel III by considering some special provisions for SME (like it was done worldwide for Basel II) and adjusting it due to local realities (as EU countries do it with an EU Directive).

- Adjusting the NBM regulations to ensure digitalization of the banking and FINTECH procedures by implementing e-KYC for financial services.

- Adjusting the NBM regulations to ensure digitalization of the banking and FINTECH procedures by using all the possibilities the Governmental interoperability platform offers by combining public services data via MConnect, a governmental platform, reports from bureau of credit history and real incomes data from banks, for example.

**Expected benefits and impact:**

By having some special provisions for SMEs in adjusted to Basel III national legislation, the financing via banks of SMEs activities will continue to be an attractive and dominant source for external financing.

At the same time, by the revision of procedures to ensure the implementation of prudential and risk identification rules for the use of open data with public access and the government interoperability platform, the time which is needed to process a request with respect to all prudential rules will be shorter and more precisely.

The implementation of e-KYC regulation in financial services will facilitate the access to financial services in a broader expand by giving the possibility of the financial inclusion of a larger amount of Moldovan population and the possibility to connect to Moldovan financial system of Moldovans abroad.

**Linkage to already existing instruments:**

National Bank of Moldova developed a Strategy for implementing the BASEL III standards in the Republic of Moldova under the legal framework of European legislation (CRD IV)[61], which does not contain any specific regulations for SMEs.

The Roadmap for boosting digitalization of the economy and development of e-commerce[62], managed by the Economic Council under the Prime-Minister specify" Remote identification and alternatives for the use of qualified advanced electronic signature" as one of the critical points for Objective 1 "Enabling remote interaction and promoting digital services to business".

Developing and approving the draft law on electronic identity and trust services it is also mentioned in the Action Plan of the Government for 2021-2022[63] (pct.2.2.2).

**Institutions responsible for implementation:**

National Bank of Moldova, Ministry of Finance, E-Gov Agency

### Entry point No.2

**TITLE: Developing alternative asset-based finance instruments**

**Justification:** As "supply chain finance" is considered one of the most common financing instruments for SMEs, ensuring that it works properly as an alternative is crucial. For now, those instruments do not work primarily because of the two leading causes: costs of financing and some legislative impediments. For example, MSMEs will typically decide to factor their receivable assets for a beneficial cash flow situation because cash is immediately generated instead of waiting for buyers to submit their payments. Doing so is particularly helpful because financing and a consistent cash flow are among the most significant challenges MSMEs face in operating their business, and factoring can provide relief in numerous ways. The cost of factoring remains relatively elevated. For example, when writing this report, the total cost would amount to at least 5-6% for a 60-day factoring service. The earnings before tax as a share of revenues for MSMEs oscillated between 4.7% and 7.9% in 2016-2020. Consequently, the 5-6% cost of factoring services would probably represent at least one-third of the potential pre-tax profit margin. At the same time, some tax issues remain and make factoring less attractive. The leasing faces the same problems but from a different perspective. One of the biggest challenges facing leasing companies is that leasing is not seen as a source of business finance, but personal, with cars being most often leased by owners and leased then to their companies. This is due to the impossibility to deduct the amount of VAT paid by companies, given that these services are exempt from VAT, requiring the transfer of the amount of VAT paid on their import at the price of leasing. This makes the value of the principal higher, placing an additional burden on businesses that would like to finance their fleet of cars or equipment.

**Policy content:**

- Creating a guarantee fund of factoring contracts for specific industries (export oriented).
- Adjusting tax legislation on income tax deductions and VAT to boost the use of factoring and leasing.

**Expected benefits and impact:**

The guarantee fund supported by the Government and/or the development partners will contribute to decreasing factoring cost by covering or sharing to some extent the non-payment risk. This will boost one of the most efficient financing instruments in cash flow needs. In the same way, it will eliminate potential impediments to the size of alternative sources of financing, in this case, funding supply-chain. The changes in the Tax Code regarding some

[61] https://www.bnm.md/files/strategie_EN_2.pdf
[62] https://consecon.gov.md/wp-content/uploads/2021/08/ROADMAP-FOR-BOOSTING-DIGITALIZATION-OF-THE-ECONOMY-AND-DEVELOPMENT-OF-E-COMMERCE.pdf
[63] https://gov.md/sites/default/files/document/attachments/hg_nr.235_13.10.2021-engl.pdf

challenges regarding the tax regime of factoring with a focus on corporate tax deductions of the difference between the cost from the invoice and the cost of factoring the invoice will increase the interest in this instrument.

As for leasing, the changes in the tax legislation will increase the interest in financing via this instrument and will move the balance from individual to business entities. It refers to VAT, and it fits in very well with the need to harmonize national legislation with the European regulatory framework following the signing of the Association Agreement, in particular, tax harmonization being focused, as a matter of priority, on VAT and excise duties.

**Linkage to already existing instruments:**

ODIMM has a valuable credit guarantee fund in place[64]. Recently, the government has adjusted its operational capacity by providing portfolio guarantees for participating banks instead of individual credit guarantees. Having a well-established credit guarantee instrument, the marginal operational cost to extend it to factor guaranteeing is relatively tiny. Consequently, the development partners in collaboration with ODIMM and other governmental institutions could provide both financial and capacity building support.

**Institutions responsible for implementation:**

Ministry of Economy, Ministry of Finance, ODIMM

### Entry point No.3

**TITLE: Boosting Equity Financing and other Capital Market instruments**

**Justification:** One of the most effective ways to diversify the supply of financing and "mature" it in the sense of long and cheaper loans is to develop the capital market and the relevant players to invest in this market. Equity financing remains a great alternative source of financing businesses, mainly if a particular focus exists on MSMEs. Facilitating access to equity markets for MSMEs has been a critical priority of EU policy in the past few years. High costs and the complexity of capital markets regulation are among the main reasons MSMEs are hesitant to seek resources in capital markets. The Republic of Moldova does not have any rules on crowdfunding, even though discussion on elaborating a framework has existed for four years. It is also a lack in the regulation of some dedicated financial instruments like Venture Capital, Private Equity, or business angels, the latest playing an essential role in the economy (in many countries, they constitute the second-largest source of external funding in newly established ventures, after family and friends). More than that, the risk aversion and reluctance of entrepreneurs in Moldova to accept external involvement in their capital structure and eventually management is a cultural element that can be moderated. It is also a lack of long-term financial instruments that will ensure a" long" money perspective for SMEs. Even the legislative framework for potential private pension funds is in place. However, the small economy and illiquidity of financial markets weigh on developing a private pension fund. On top of this, some accounting and tax issues are still in place that demotivates SMEs as long as investors are interested in the investment activity.

**Policy content:**

- Adopting a national framework on crowdfunding following the EU regulations to ensure the full interoperability and similitude of procedures with the European market.
- Launching a crowdfunding portal on the Organization for Small and Medium Enterprises Sector Development (ODIMM) webpage, where development partners and small investors would invest via equity crowdfunding platforms on selected MSMEs, graduates of ODIMM programs, for instance, would be our recommendation to shape the entrepreneurial culture. This portal could also serve as a search engine for crowdfunding, business angels' platforms, and initiatives that comply with existing regulations and promote exemplary practices without any possibility of intervention in the design/selection of projects or in the fundraising process.

[64] https://www.odimm.md/en/fgc

- Clarifying all tax and accounting aspects of crowdfunding, Venture Capital, Private Equity, business angels mechanisms to make it easy and attractive for MSMEs and investors to use this opportunity of funding their activity.

- Launching of the first semi-private equity fund, where the Government in collaboration with international donors and several private investors will join the effort to act as a qualified investor in this regard, thus ensuring the refinement of the regulatory framework based on national specifics, by being inspired “from the first source”, but also the identification of the most efficient and most suitable tax incentives for these forms of activity and financing of the business activity.

- Launching a first semi-private pension fund funded by the government and development partners, which ultimately would attract private funds.

**Expected benefits and impact:** The implementation of the proposed instrument will boost the interest in the equity financing of the SMEs activity, both from the SMEs and from the investors' side. They will strengthen industry networks and make investment easier for the large public, which can select projects through a simple interface and clear rules (in the case of the platform). By developing a semi-private pension fund, an efficient instrument to support the development of MSMEs by ensuring access to" long" and respectively cheaper money will be in place. All those instruments will offer some important investment and financing instruments and will boost the development of capital and the financial market. Having clear rules on accounting and tax fields will also support and feet the interest in such instruments. On top of that, it will considerably increase financial education and ensure the financial inclusion of the population.

**Linkage to already existing instruments:**

Promoting and approving the draft law on crowdfunding services it is mentioned in the Action Plan of the Government for 2021-2022 (pct.4.14.1). Additionally, a loan crowdfunding platform already exists in Moldova. However, the lack of legislation and size of market are limiting the potential for its development. At the same time, government officials have expressed in several instances the necessity of a semi-private developing fund to support local economy, but this has not been materialized yet.

**Institutions responsible for implementation:**

Ministry of Economy, Ministry of Finance, Organization for Small and Medium Enterprises Sector Development (ODIMM), National Commission of the Financial Market

## Entry point No.4

**TITLE: Assist Government in direct support of SMEs**

**Justification:** The Government plays an essential role in stimulating the financing and financing the SMEs’ activity. Many countries have enabled MSMEs to diversify sources and instruments to meet their financing needs. There is a need for some special incentives, specifically tax incentives, to boost the development of traditional and alternative financing tools and satisfy SMEs' financial needs.

**Policy content:**

- Creating the Moldovan Government Developing Fund (MGD Fund) based on Organization for Small and Medium Enterprises Sector Development (ODIMM) and former Credit Line Directorate (now part of PI "External Assistance Program Management Office") which will take care of the guaranteeing of bank credits and lending of donors' money on conditions ensure and through this to subsidize interest on loans provided by banks and other accredited lending institutions. It should also take care of extending the grace period. The exact mechanism is described more in details in previous Chapter of the Report.

- Implementing tax relief and tax exemptions for SMEs, including corporate tax (zero rates for reinvested profit) and VAT (rising existing threshold).

**Expected benefits and impact:** State support is one that offers or leaves more liquidity in the market and, implicitly, contributes to the reduction of financing costs, including considering the stimulation through tax instruments. It also makes it possible to capitalize on the self-financing perspective of companies, by increasing, without detours and bureaucratic reservations, their economic potential, which benefits all parties involved: more income for development, indirect development of the economy by increasing the need for resources and interacting with more suppliers, hiring more people and ensuring financial well-being at least for their families and, of course, increasing budget revenues by contributing companies to the budget by paying all the adjacent taxes.

**Linkage to already existing instruments:**

The government has designed an instrument that compensated the interest rate fees at the beginning of covid crisis. Nonetheless, the program has not been very successful, but the new concept of Moldovan Government Developing Fund should be able to address the main issues that proved unsuccessful previously.

**Institutions responsible for implementation:**

Ministry of Economy, Ministry of Finance, Organization for Small and Medium Enterprises Sector Development (ODIMM)

### Entry point No.5

**TITLE: Increasing the level of financial literacy and access to information**

**Justification:** Lack of credit information is a factor that contributes to the constraints faced by MSMEs as assessing their creditworthiness represents a unique challenge. That's why it is necessary to provide MSMEs with access via a single-entry point for all inquiries on local financing opportunities by increasing the functionalities already available on ODIMM's web page.

**Policy content:**

- Launching of the Access to Finance Information Aggregator on ODIMM's webpage. It should be organized in the way in which to help potential borrower or grant beneficiary to what exactly (s)he needs and is looking for through the line of questions from the decision tree that will bring the person to exactly the right potential available sources of financing the needs he or she have. It should also offer the possibility to filter the information by phase of development, type, donor, and other relevant criteria from an available database. On the other hand, it should ensure a transparent system of updating and fulfillment of the information, not to admit the situation when the interested one will get confused about the research results. The portal should also allow the possibility to subscribe to interesting sections and special offers provided by lenders and other donors to be updated and react promptly if there are some excellent offers to his/her activities.

- Launching the Cost of Finance Calculator for MSMEs on ODIMM's web page, which should operate on an intuitive base and ask questions to help the beneficiary understand what the need is precisely and simulate the potential cost of raising funding. It should also show in the results box if there is any possibility of co-financing from the state of the activity (s)he is trying to finance and other relevant information that could help the beneficiary better understand the potential impact and alternatives that exist in his/her situation.

- Developing National Information Campaign to spread as much as possible the word about the possibilities that exist in finance the business activity for MSMEs and the tools that exist to get more informed and updated on this.

**Expected benefits and impact:** Implementing intuitive and easy-to-use tools for users will contribute to a more intense penetration of funding information among interested SMEs and will increase literacy. These tools will also make it easier to understand the different opportunities offered by the market in the SME financing dimension. They will lead to responsible and informed decisions from those interested in financing their own business.

**Linkage to already existing instruments:**

ODIMM offers significant amount of financial education via its programmes. Additionally, it has recently launched a financing guide for MSMEs[65]. However, an Access to Finance Information Aggregator as described above would boost entrepreneurs' knowledge about potential financing sources.

**Institutions responsible for implementation:**

Ministry of Economy, Organization for Small and Medium Enterprises Sector Development (ODIMM)

## Entry point No.6

**TITLE: Support SMEs in Transnistria Region**

**Justification:** MSMEs in Transnistria generally do not have access to financing from Moldovan banks. The main reasons are the difficulties in securing the pledge in the area as well as a separate money unit used in Transnistria. The financial institutions present in the region cannot access cheaper funds through special credit lines offered by international donors, since they are not internationally recognized, and there may be various views on the governance of the allocated funds. A reported problem was related to the difficulties registered in opening accounts in banks in the controlled territory of the Republic of Moldova, requiring the region's authorities' approval. It was also mentioned that the available SMEs fundings are not covering a considerable number of potential beneficiaries because of the existing limitations (age, gender, and so on).

**Policy content:**

- including in the negotiation package in the "5 + 2" format directions to simplify and facilitate the interaction between small and medium enterprises in the Transnistrian region with financial institutions in the controlled territory of the Republic of Moldova.
- Increasing existing UNDP funding line to cover other phases in the work of Transnistrian MSMEs and the inclusion of different categories of beneficiaries than young people up to 35 years of age.
- Promoting financial literacy among the public, building financial management and business planning skills among small business owners.
- Expanding official definition for MSMEs and cooperating with UNDP for further improvement of the legal and regulatory framework.
- Cooperating with ODIMM by increasing capacity and accessibility of direct loans and loan guarantee schemes.
- Using experience of EU start-up financing schemes.

**Expected benefits and impact:** The implementation of these policies will have many beneficial effects: first, it will ensure a deeper connection between Transnistrian companies and the domestic financial system, whether it is financed through banks or donor financing. On the other hand, these measures will lay the foundations for concrete and authentic mechanisms, which could later be extrapolated to other related or similar processes.

**Linkage to already existing instruments:**

None

[65] https://www.odimm.md/files/biblioteca/2020/Noiembrie/17.11/FINAL_Ghid-148x210mm-PRINT.pdf

**Institutions responsible for implementation:**

Ministry of Economy, Office of the Deputy Prime Minister for Reintegration