

SME finance in Moldova: estimation of financing gap and priorities for improving access

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1. Introduction

- Small and medium-sized enterprises (SMEs) are a foundation of a diversified and open economy.
- In Moldova, SMEs account for 62% of employment in the business sector.
- Regular and reliable access to finance is a crucial factor for SME development.
- Like in other countries, Moldovan SMEs were heavily hit by the COVID-19 crisis, thus increasing their need for finance.
- This presentation:
 - outlines the role of SMEs in the national economy,
 - analyses the supply and demand of SME finance, and estimates the resulting financing gap,
 - provides a review of existing financing instruments, and
 - puts forward recommendations for improving the situation.

2. SMEs in Moldova and their role in the economy

	Eastern Partnership			European Union		
SME share of	Moldova	Georgia	Ukraine	Romania	Germany	EU-28
Enterprises	98.6%	99.7%	99.9%	99.7%	99.5%	99.8%
Employment	61.6%	64.2%	73.6%	65.8%	63.7%	66.6%
Value added	60.9%	60.5%	59.9%	52.7%	54.4%	56.4%

Sources: National Bureau of Statistics of the Republic of Moldova (2019), Ukrstat (2019), OECD SME Policy Index 2020 for Georgia (2018), Eurostat (2018)

- The number of SMEs in Moldova is around 56,000, or 25 entities per 1,000 inhabitants (ages 15 or above). This is relatively low compared to 29 in Romania, 34 in Germany, 40 in Georgia, 53 in Ukraine and 57 as the EU average.
- Most SMEs (62%) are located in the capital region of Chisinau. The majority of SMEs (52%) are active in the services sector. Please see Annex 1 for details.
- OECD reviewed Moldova's SME policy in 2012, 2016 and 2020 as part of the Eastern Partnership countries analysis. Please see Annex 2 for details.

3. Estimation of the SME financing gap: methodology

- We collected the most recent data about the number of SMEs in Moldova (please see Annex 1). We discovered that only 72% of them are currently active.
- To estimate SME demand for financing, we used the available statistical information from the National Bureau of Statistics on equity and debt held by companies in Moldova, disaggregated according to company size (micro, small, medium).
- We calculated the following from this data:
 - Average equity per one company: “own equity” divided by number of active businesses in a group (i.e. for each company size).
 - Average debt: The sum of “long-term liabilities” and “current liabilities” divided by the total number of active businesses in a group.
- The demand for equity and debt by SMEs was based on the assumption that all companies are fully aware of such financing. However, we assumed that only 25% of SMEs are interested and willing to invest and require financing, while the rest have no need or intention to raise any external financing.
- The numbers for supply of equity and debt are based on statistical data from a number of sources (e.g. NBM, ODIMM, NCFM) and on our estimates if there was no such data.
- The difference between demand and supply represents the financing gap.

Demand for SME finance

Economic unit	Total Number	Active	Average equity (per one), EUR m	Average debt (per one), EUR m	Probability of taking SME financing	Total demand for equity, EUR m	Total demand for debt, EUR m	Total demand, EUR m
Micro company	48,056	34,600	0,02	0,10	25%	215	894	1,109
Small company	6,487	4,671	0,31	0,45	25%	357	527	884
Medium company	1,374	989	1,20	1,39	25%	300	343	643
Total	55,917	40,260	-	-		872	1,764	2,636

Source: National Bureau of Statistics of the Republic of Moldova, own estimate

- Based on a set of realistic assumptions, we estimate a demand for financing by SMEs in Moldova of EUR 2.6 bn.
- Of this, EUR 1.8 bn is the total demand for debt, while the demand for equity is EUR 0.9 bn.

Supply of SME finance 1/2

Type of Financing	Supply of equity, EUR m	Supply of debt, EUR m
Loans from Moldovan banks	-	596
of them supported by ODIMM	-	93
provided as grants	-	31
guaranteed by the Credit Guarantee Fund	-	5
SME credit lines by IFIs arranged through Moldovan banks	-	119
Non-bank credit organisations (including leasing)	-	62
Credit unions	-	7
Factoring companies	-	-
Own equity	523	-
Equity funds	-	-
Startup financing	-	-
Total supply	523	784

Sources: National Bank of Moldova, ODIMM, Aid Management Platform, National Commission on Financial Markets, National Bureau of Statistics; note: we assumed that on average, 15% of the equity on SMEs' balance sheets as reported in national statistics is available for financing.

Supply of SME finance 2/2

Loans

- Existing debt supply is mostly represented by traditional bank lending and leasing with significant support provided by IFIs. Major donors include EBRD, EIB, World Bank, IFC, USAID, KfW.
- The government launched a special foreign aid management portal (<http://amp.gov.md>), which includes some programmes directed to SMEs, e.g., EU4Business executed 23 projects in the total value of EUR 52.7 m.

Non-bank financial organisations

- Microlending organisations have increased their market share considerably over the past years, creating some problems with household over-indebtedness and lack of regulatory oversight.
- Though legislation enabling the supply of factoring services is in place, there is no information available about factoring companies active in Moldova.

Equity

- Equity financing sources are much more limited and entirely consist of SME's own equity.

SME financing gap

Type of finance	Demand	Supply	Financing gap	in % of demand
Equity, EUR m	872	523	349	40%
Debt, EUR m	1,764	784	980	56%
Total, EUR m	2,636	1,308	1,329	50%

- Comparing supply and demand, we calculate a total financing gap of EUR 1.3 bn, or 50% of the demand by SMEs.
- The debt financing gap accounts for the largest share with 56% of the demand.
- The equity financing gap of 40% most likely will be covered by own equity but this also represents an opportunity for external financing.

4. Strengths and weaknesses of existing SME financing instruments

Financing instruments	Strengths	Weaknesses
Loans from Moldovan banks	Most accessible instrument, provided in local currency	Predominantly short-term, high interest rate, often require hard collateral
SME credit lines by IFIs arranged through Moldovan banks	Medium and long-term loans, often accompanied by technical assistance	Hard currency loans
Factoring companies	Accounts receivable used as a security, normally revolving	Short-term financing, recourse possible
Non-bank credit organisations (including leasing)	For loans: unsecured, provided in local currency For leasing: medium and long-term, leased object used as a security	For loans: low capacity, small amount, high interest rate, individuals only For leasing: own contribution up to 50% required
Credit unions	Unsecured, provided in local currency	Low capacity, small amount, high interest rate, individuals only
Own equity	Permanent risk capital	Difficult to raise, if urgently needed
Equity funds	Permanent or temporary risk capital, often medium or long term	Low capacity, difficult to access
Start-up financing	Good appetite for innovative projects from global companies and funds	Low capacity, mostly in IT sector, investments usually made from outside Moldova

➤ **A mix of financing instruments helps to build a diversified ecosystem for SME support**

5. Priorities for improving SME access to finance: initial thoughts

#	Subject	What to do	How to do
1	Loans to SMEs	Continue legal and regulatory reforms, improve supportive infrastructure	Cooperate with IFIs and governmental agencies on further improving the legal and regulatory framework Increase coverage of the private credit information bureaus
2	Loans to SMEs	Strengthen the role of ODIMM	Increase capacity of Credit Guarantee Fund to EUR 100 m Initiate a specialised loan guarantee scheme for farmers
3	Loans to SMEs	Address the post-pandemic decline in lending to SMEs	Initiate a special relief financing package of EUR 50 m for SMEs from IFIs to channel through partner banks
4	Loans to SMEs	Monitor and evaluate the impact of SME support	Arrange regular analysis on supply and demand of SMEs' financing needs Develop the system of measuring impact of the existing SME programmes
5	Non-bank financial products and services	Support viable alternatives to bank financing through adequate legal frameworks for non-bank financial products and services	Initiate a state or private equity fund Use experience of EU start-up financing schemes Cooperate with business associations in alternative financing to improve the legal and regulatory framework.
6	Education and training	Promote financial literacy among the public, build financial management and business planning skills among small business owners	Analyse financial literacy of SMEs Enhance financial skills of SMEs on how to raise financing (cooperation with banks and investors, basics of finance, business planning, financial projections, etc.) Train SME how to raise alternative financing (leasing, factoring, credit unions, venture capital, business angel financing, etc.)

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus and Uzbekistan on economic policy matters. Furthermore, GET covers specific topics in other countries, such as Armenia. Berlin Economics has been commissioned with the implementation of the consultancy.

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Implemented by



Annex 1: SMEs in Moldova

- Since 2016, new SME definition was adopted: similar to that of the EU in terms of number of employees, but much lower turnover and asset criteria.

SME definition

Economic unit	Number of employees	Annual turnover	Total assets
Micro company	< 10	< MDL 9 m (EUR 0.4 m)	< MDL 9 m (EUR 0.4 m)
Small company	10 – 50	MDL 9 - 25 m (EUR 0.4-1.2 m)	MDL 9 - 25 m (EUR 0.4-1.2 m)
Medium company	50 – 250	MDL 25 - 50 m (EUR 1.2-2.3 m)	MDL 25 - 50 m (EUR 1.2-2.3 m)

Source: National Bureau of Statistics of the Republic of Moldova

Number of SMEs

Economic unit	Number	Share of total number of companies
Micro company	48,056	84.7%
Small company	6,487	11.4%
Medium company	1,375	2.4%
Total	55,917	98.6%

Source: National Bureau of Statistics of the Republic of Moldova (2019)

Annex 1: SMEs in Moldova

Number of employees

Economic unit	Number	Share of total number of companies
Micro company	114,234	21.0%
Small company	118,625	21.8%
Medium company	102,900	18.9%
Total	335,792	61.6%

Source: National Bureau of Statistics of the Republic of Moldova (2019)

Value added

Economic unit	Amount, MDL thsd.	Share of total amount of companies
Micro company	43,398.3	10.9%
Small company	63,515.7	16.0%
Medium company	50,421.6	12.7%
Total	157,335.6	39.5%

Source: National Bureau of Statistics of the Republic of Moldova (2019)

Annex 1: SMEs in Moldova

Regional distribution

Region	Number	Share of total number of SMEs
Municipality Chisinau	34,907	62.4%
North	7,185	12.8%
Centre	9,072	16.2%
South	3,079	5.5%
Gagauzia	1,674	3.0%
Total	55,917	100.0%

Source: National Bureau of Statistics of the Republic of Moldova (2019)

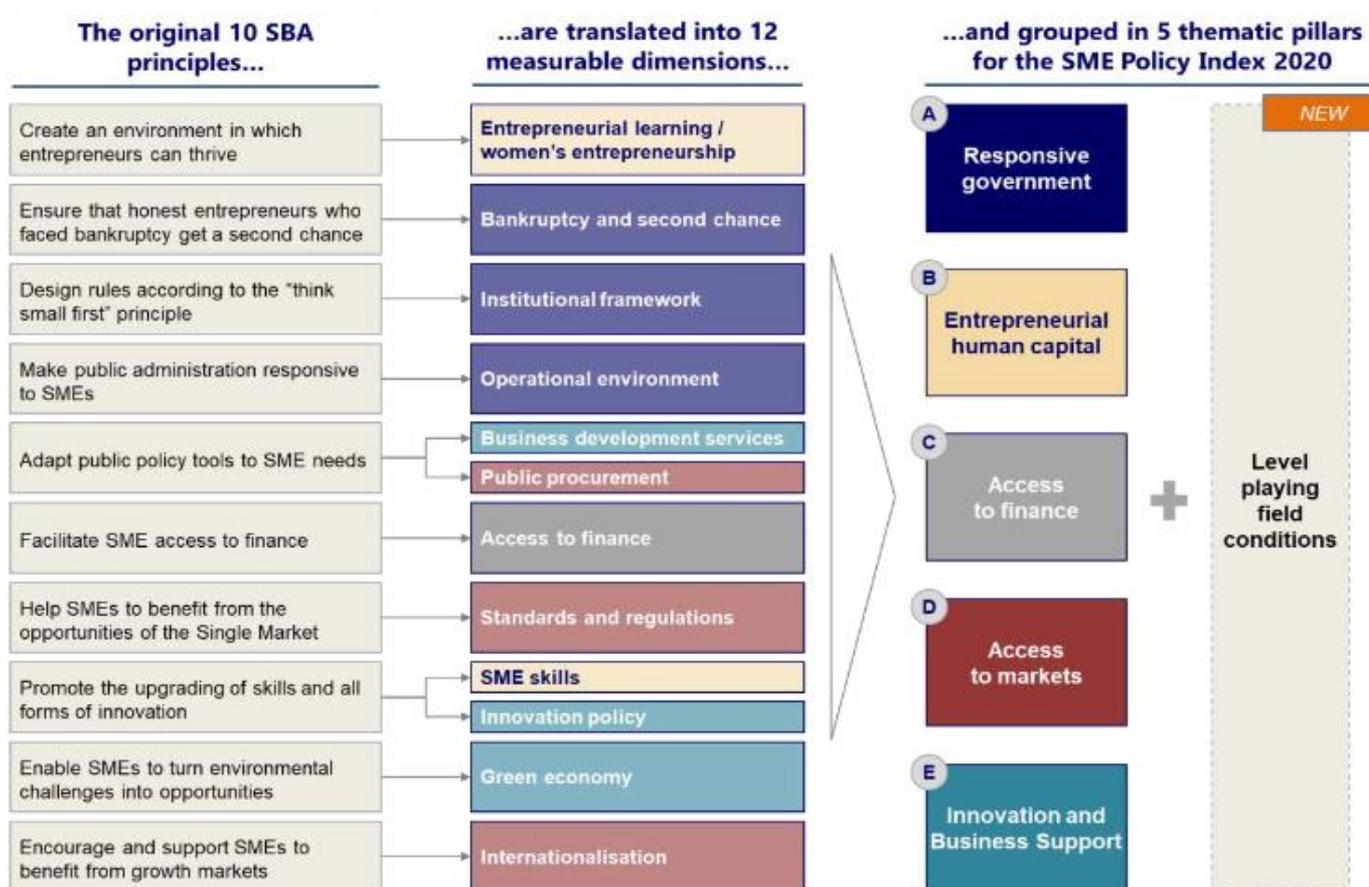
Top-5 industries

Economic unit	Number	Share of total number of SMEs
Wholesale and retail trade; maintenance and repair of vehicles	20,288	36.3%
Professional, scientific and technical activities	4,865	8.7%
Manufacturing	4,718	8.4%
Agriculture, forestry and fishing	4,398	7.9%
Real estate	3,675	6.6%

Source: National Bureau of Statistics of the Republic of Moldova (2019)

Annex 2: OECD SME Policy Index on Moldova

- In 2020, the methodology for the assessment has changed. The index is now grouped into five pillars:



Source: OECD SME Policy Index 2020

Annex 2: OECD SME Policy Index on Moldova

- Moldova's position in the 2016 and 2020 OECD assessment compared to the EaP countries' average:

Pillar	Dimension	MDA 2020	MDA 2016	EaP average 2020	MDA 2020 (2016 methodology)
A	Institutional and regulatory framework	3.92	3.51	3.74	3.92
	Operational environment	3.76	3.56	3.92	3.76
	Bankruptcy and second chance	2.79	2.68	2.85	2.69
B	Entrepreneurial learning / Women's entrepreneurship	4.25	2.57	3.58	n.a.
	SME skills	3.92	2.50	3.36	n.a.
C	Access to finance	3.61	3.40	3.57	3.64
D	Public procurement	3.86	2.89	3.49	3.86
	Standards and regulations	3.68	4.12	3.43	3.39
	Internationalisation	2.74	3.07	2.96	3.13
E	Business Development services	3.47	3.35	3.53	3.47
	Innovation policy	2.99	2.54	2.92	3.04
	Green economy	2.92	2.19	2.77	2.92

Source: OECD SME Policy Index 2020

Annex 2: OECD SME Policy Index on Moldova

- Since 2016-2020 Moldova has moderately improved its overall score.
- Good progress has been achieved on Pillar B.
- Further attention is required to Pillars A, D and E.

Pillar	Description	Dimension	Score	Gap to 5.00, %
A	Responsive Government	Institutional and regulatory framework	3,92	22%
		Operational environment	3,76	25%
		Bankruptcy and second chance	2,79	44%
B	Entrepreneurial Human Capital	Entrepreneurial learning / Women's entrepreneurship	4,25	15%
		SME skills	3,92	22%
C	Access to Finance	Access to finance	3,61	28%
D	Access to Markets	Public procurement	3,86	23%
		Standards and regulations	3,68	26%
		Internationalisation	2,74	45%
E	Innovation and Business Support	Business Development services	3,47	31%
		Innovation policy	2,99	40%
		Green economy	2,92	42%

	High gap (> 60%)
	Average gap (30-60%)
	Low gap (< 30%)

Source: OECD SME Policy Index 2020

Annex 2: OECD SME Policy Index on Moldova

- Between the 2016 and 2020 assessments, Moldova's score in the category "Access to Finance" (Pillar C) improved to above the average in the Eastern Partnership region.
- Key achievements so far have been:
 - After the banking fraud scandal of 2014-2015, the financial sector has seen increased levels of stability and international investor interest following the IMF-led review
 - A 2018 law on non-bank credit institutions has brought various forms of alternative financing under one regulatory umbrella, strengthening, for example, leasing regulations
 - An expansion of the registration system for movable assets has improved the ecosystem for registering collateral
 - A decision to increase the capacity of the Credit Guarantee Fund is a positive step in mitigating SME lending risks.

Annex 2: OECD SME Policy Index on Moldova

Factors	OECD assessment
Legal and regulatory framework	<ul style="list-style-type: none">• SME Development Strategy for 2012-2020 defined a principal strategy of the government• There is a well-established legal framework on secured transactions, with creditor protection broadly in line with international best practices• However, insolvency proceedings are prone to long procedures and relatively high costs, and recovery rates are low• Limited coverage of the existing private credit information bureaus (less than 20% of potential clients)• Most loans are provided in local currency - only internationally exposed SMEs are able to access foreign currency loans

Annex 2: OECD SME Policy Index on Moldova

Factors	OECD assessment
Sources of external financing for SMEs	<ul style="list-style-type: none">• Banks remain the main source of SME financing. The sector demonstrated signs of revitalisation and stabilisation, as well as international investor interest.• Organisation for Small and Medium Enterprises Development ODIMM (https://odimm.md) operates under the supervision of the Ministry of Economy and Infrastructure and serves as a special governmental agency since 2007.• Support schemes include a variety of different instruments such as loans, grants, credit guarantees, consultancy, trainings, etc. Every major bank participates in SME support programmes. So far ODIMM supported 4,500 companies, or 8% of all SMEs.
Financial literacy	<ul style="list-style-type: none">• No assessment was conducted on the financial literacy of SMEs.• A roadmap on financial literacy should be developed providing a framework for centrally coordinated support programmes.• ODIMM provides specific training courses in financial literacy for SME entrepreneurs. These courses are part of the capacity building activities and partially focused on financial needs.

Annex 3: Role of ODIMM

ODIMM fulfills the following functions:

- Elaboration and implementation of programs and projects for the development of the SME sector
- Administration of the State Credit Guarantee Fund
- Providing consulting and training services for managers and employees of SMEs
- Creation and development of a network of business incubators
- Supporting the formation of clusters and innovative networks
- Supporting the development of associates and business support institutes
- Cooperation with similar national and international organizations.

Annex 3: Role of ODIMM

ODIMM oversees the following programmes:

National Programmes:

- Start for Youth – a sustainable business at your home
- Credit Guarantee Fund (FGC)
- Continuous Training Programme „Efficient Business Management” (GEA)
- Program for Attracting Remittances in the Economy “PARE 1+1”
- National Pilot-Programme „Women in Business” (PFA)
- National Subsidy Programme for Fairs and Exhibitions
- Moldovan Network of Business Incubators (RIAM)
- National Business Excellency Center (CCAA)
- First Home

Programmes funded by international donors:

- Senior Experten Service - Better SMEs access to European know-how
- VIP4SMEs - Value Intellectual property for SMEs
- MADE IN DANUBE - Transnational Cooperation to transform knowledge into marketable products and services for the Danubian sustainable society of tomorrow
- Business-INN-Moldova - Improving the delivery of integrated business support and innovation services of the Enterprise Europe Network in the Republic of Moldova for higher competitiveness of enterprises
- South Open Gate of Moldova for Businesses and Investments Promotion
- Support to SMEs in Rural Areas
- Danube Chance2.0 - Embracing failure to facilitate second-chance entrepreneurship in the Danube region
- Finance4Social Change - Leveraging Finance for positive Social Change
- Women in Business - Fostering the Young Women Entrepreneurship in the Danube Region

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