

# MOLDOVA

## 1. Introduction

Moldova has a dynamic business environment for SMEs in the IT sector. However, significant challenges impacting SMEs, such as the negative trade balance, low levels of product sophistication and economic diversification, as well as a brain drain, are still to be addressed.

The COVID-19 pandemic, combined with a severe drought, significantly impacted the Moldovan economy in 2020. Employment in the economy as a whole is estimated to have dropped by almost 8.0%<sup>1</sup> in 2020 compared to the previous year, with value added falling by an estimated 6.7%<sup>2</sup>. The sectors most affected by this overall downturn in economic activity were *accommodation and food services, transportation and storage and wholesale and retail trade*.

In Moldova, small and medium-sized enterprises (SMEs) play an important role in the 'non-financial business economy'. In 2019, they contributed 68.4% of total value added and 69.1% of total employment, far exceeding the respective EU averages of 53.2% and 65.0%. However, SME productivity in Moldova, measured as value added per person employed, was only EUR 9 100 in 2019, roughly a quarter of the EU average of EUR 42 600. SMEs in Moldova employed an average of 7.7 people in 2019, more than double the EU average of 3.7.

Figure 1: Number of enterprises, persons employed and value added in 2019

|                     | Number of enterprises |              |              | Number of persons employed |              |             | Value added   |              |              |
|---------------------|-----------------------|--------------|--------------|----------------------------|--------------|-------------|---------------|--------------|--------------|
|                     | Moldova               |              | EU-27        | Moldova                    |              | EU-27       | Moldova       |              | EU-27        |
|                     | Number                | Share        | Share        | Number                     | Share        | Share       | € million     | Share        | Share        |
| <b>Micro</b>        | 29 172                | 82.8%        | 93.2%        | 78 805                     | 20.1%        | 29.3%       | 562.9         | 15.7%        | 19%          |
| <b>Small</b>        | 4 940                 | 14.0%        | 5.7%         | 96 803                     | 24.7%        | 19.8%       | 910.9         | 25.4%        | 17%          |
| <b>Medium-sized</b> | 954                   | 2.7%         | 0.9%         | 95 267                     | 24.3%        | 15.8%       | 977.6         | 27.3%        | 17.2%        |
| <b>SMEs</b>         | <b>35 066</b>         | <b>99.5%</b> | <b>99.8%</b> | <b>270 875</b>             | <b>69.1%</b> | <b>65%</b>  | <b>2 451</b>  | <b>68.4%</b> | <b>53.2%</b> |
| <b>Large</b>        | 175                   | 0.5%         | 0.2%         | 121 277                    | 30.9%        | 35%         | 1131.7        | 31.6%        | 46.8%        |
| <b>Total</b>        | <b>35 241</b>         | <b>100%</b>  | <b>100%</b>  | <b>392 152</b>             | <b>100%</b>  | <b>100%</b> | <b>3583.2</b> | <b>100%</b>  | <b>100%</b>  |

Source: These data for 2019 are estimates processed by DIW Econ, based on data provided by the Statistical Office of Moldova. The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

## 2. Key strengths

### Numerous initiatives have been launched in the country to support the growing IT sector and its start-ups

The ICT sector represented 7% of GDP in Moldova in 2019<sup>3</sup> (EU average: 4%) with the country's strong IT sector alone representing 3.1% of GDP.

However, the Moldovan IT sector is confronted with a brain drain, as skilled IT workers continue to migrate. Numerous initiatives in the country – some supported by the European Union – have been launched to enable the sector to continue growing. The country has high-level technical infrastructure within its education system, a rapidly developing IT and incubators infrastructure network as well as numerous fiscal incentives<sup>4</sup> specifically favouring the IT sector.

In Moldova, there are eight innovation incubators as well as a scientific-technological park (funded by the public agency ANCD) that start-ups can benefit from. In addition, there is a network of 11 functional business incubators around the country, developed to help regional start-ups. The business incubators are run by the ODIMM agency that supports entrepreneurship countrywide<sup>5</sup>.

When it comes to IT-specialised infrastructure, the 'Virtual Moldova IT park' has more than 700 residents and is continually growing, developing a wide variety of IT projects in the country<sup>6</sup>. In addition, Tekwill<sup>7</sup>, an IT incubator established thanks to international cooperation<sup>8</sup>, offers a platform for IT start-ups and aims at merging the research community from the Technical University of Moldova with the country's business community.

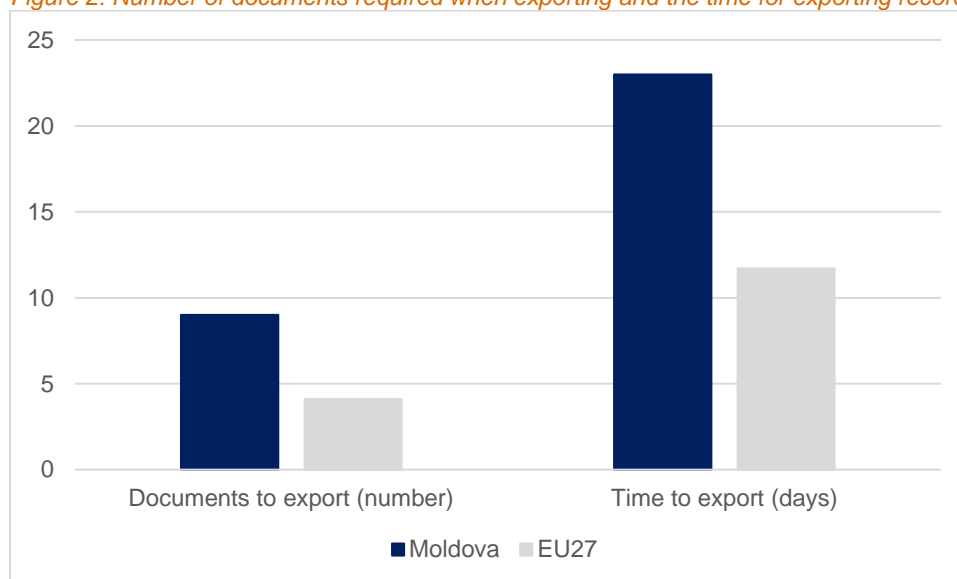
The turnover of IT SMEs in Moldova grew by approximately 15% in 2019 compared to 2018, aligned with the two-digit growth trend of previous years for SMEs in this sector<sup>9</sup>.

### 3. Key challenges

#### Disrupted trade balance

Moldova's exports cover only 47% of its imports<sup>10</sup>, resulting in a trade deficit with most countries around the world as it relies on foreign trade for many commodities. Moreover, there are several barriers to exporting, such as the significant importance of labour-intensive activities with low value added in the economy, political instability, and the lack of adequate market support institutions and transport infrastructure<sup>11</sup>.

Figure 2: Number of documents required when exporting and the time for exporting recorded in calendar days.



Source: World Bank Doing Business, 2015<sup>12</sup>

#### Low economic complexity

The low levels of product sophistication and economic diversification in Moldova are major obstacles for longer-term economic growth. In 2018, Moldova came 71st in the global ranking of economic complexity, while it ranked 60th in 2012<sup>13</sup>. In 2019, 21.8% of the country's GDP came from retail activities, 9.9% from agriculture, 14.2% from the extraction industry, 8.6% from construction activities and 7.2% from real estate transactions<sup>14</sup>.

This low level of economic diversification in Moldova reduces the opportunities for start-ups and SMEs, as the country's economy is characterised by a low number of companies active in a limited number of production chains, exhibiting few cross-cutting linkages.

#### Brain drain

The massive exodus of people which started in the early 2000s has created a talent shortage in Moldova. Some estimates suggest that 1 in 4 Moldovans works outside the country, with most having dual Romanian citizenship, thus allowing them the opportunity to work in the EU<sup>15</sup>.

In 2020, the active working force in Moldova reached 39.9% of the total population, against the EU average of 73.2%. The unemployment rate is 4.2%, against the EU average of 7.5%<sup>16</sup>. The lack of manpower makes it difficult for SMEs to hire. In order to retain the workforce, the government launched several programmes and initiatives, especially in the ICT and IT sector, and significant investments have been made in the technology start-ups infrastructure (see strength on the IT sector in Moldova).

## 4. Other key SME-related brief insights



### IMPACT OF COVID-19 CRISIS ON SMES

The sectors that were hit the hardest by the COVID-19 crisis were *hotels, restaurants, tourism and transport*.

The government carried out a series of actions to support SMEs in 2020. The initiatives included measures such as i) the SME Digitisation Support Tool to support the digital transformation of SMEs<sup>17</sup>, ii) financial support, such as the State subsidy, covering credit interest rates given to SMEs<sup>18</sup>, and iii) subsidies to maintain SME employment during periods of inactivity<sup>19</sup>.



### SCALE-UP ENVIRONMENT

In 2019, the turnover of SMEs grew by 9.1% and constituted 39.1% of all sales in the economy<sup>20</sup>.



### GREEN TRANSITION OF SMES

Compared to EU countries, Moldova emits fewer industrial pollutants due to the severe decline in industrial production over the last 30 years (1.39 metric tons per capita per year, against the EU average of 8.89 metric tons per capita per year). New industrial SMEs are mostly using green technologies<sup>21</sup>.

In 2020, Moldova launched a grant scheme to promote the use of green economic models within SMEs – the National Greening Programme for SMEs ('Program de ecologizare a IMM-urilor')<sup>22</sup>.



### MARKET ACCESS

Market access policies are relatively new tools in Moldova. A new programme, 'Supporting SME with high growth and internalization potential', was adopted in 2020 to provide grants covering 50% of total costs to help selected SMEs with their business plans<sup>23</sup>.



### REGULATORY BURDEN

Over the last 5 years, Moldova has made some progress in developing an increasingly favourable environment for SMEs, especially in terms of regulatory burden<sup>24</sup>. It has eliminated many superfluous laws and regulations (e.g. through the 'guillotine' packages)<sup>25</sup>.

As regards the regulatory burden in the country, on a scale from 1 to 7 (1 worst-7 best), some progress has been achieved over the recent years. In 2019, Moldova scored 3.4, up from 2.8 in 2010<sup>26</sup>.



### DIGITALISATION OF SMES

In 2020, a new digital strategy was adopted – 'Moldova digitala 2020'<sup>27</sup> – which focuses on 3 pillars: i) improving internet access; ii) increasing digital content; and iii) increasing digital training for SME.

Fiscal, statistical and financial reporting are increasingly being presented in digital format. In 2019, the number of e-reports grew by 7.5%. The vast majority of SMEs are presenting their fiscal reports in electronic format with the use of digital signatures<sup>28</sup>.



### ACCESS TO FINANCE

The National Bank of Moldova reduced the interest reference rate to a historic low, from 19.5% in September 2015 to 2.65% in November 2020. This has increased opportunities for SMEs to access credit<sup>29</sup>.

- <sup>1</sup> Employment data are based on the World Bank publication – *Moldova: Assessing the impact of COVID-19 and the drought on jobs, firms, and households*, available at: <http://pubdocs.worldbank.org/en/185631608708604109/Moldova-Economic-Update-Special-Focus-Dec-22.pdf>
- <sup>2</sup> Value added data for 2020 are based on data provided by the National Bureau of Statistics of the Republic of Moldova. Available at <https://statistica.gov.md/newsview.php?l=ro&idc=168&id=6850>.
- <sup>3</sup> Biroul National de Statistica (2020), *Activitatea întreprinderilor mici și mijlocii în Republica Moldova în anul 2019*, available at: <https://statistica.gov.md/newsview.php?l=ro&idc=168&id=6716>
- <sup>4</sup> Monitorul (2021), *Facilități pentru IT-companii*, available at: [https://monitorul.fisc.md/catalog/tematic/exemption\\_it\\_companies/](https://monitorul.fisc.md/catalog/tematic/exemption_it_companies/)
- <sup>5</sup> ODIMM (2019), *Incubatoare De Afaceri*, available at: <https://odimm.md/ro/despre/domenii/incubatoare-de-afaceri>
- <sup>6</sup> Moldova IT park, available at: <https://moldovaitpark.md/en/>
- <sup>7</sup> Tekwill, available at: <https://www.tekwill.md>
- <sup>8</sup> Tekwill was created with support from the United States Agency for International Development (USAID) and the Swedish Government through the Swedish International Development Agency (SIDA) as part of the project 'Development of Moldova ICT Excellence Center', managed by the Moldovan Association of ICT Companies (ATIC) in partnership with Technical University of Moldova.
- <sup>9</sup> See Note 3.
- <sup>10</sup> Banca Națională a Moldovei, Raport: *Transferuri de mijloace bănești din străinătate efectuate în favoarea persoanelor fizice (în bază netă)*, available at: <https://www.bnm.md/bdi/pages/reports/dbp/DBP4.xhtml?id=0&lang=ro>
- <sup>11</sup> UNECE, *Trade dynamics in Moldova*, available at: [https://unece.org/fileadmin/DAM/trade/Publications/ECE\\_TRADE\\_433E\\_Chapter\\_2.pdf](https://unece.org/fileadmin/DAM/trade/Publications/ECE_TRADE_433E_Chapter_2.pdf)
- <sup>12</sup> World Bank Doing Business 2015, available at: <http://www.doingbusiness.org/>
- <sup>13</sup> Atlas, Country & Product Complexity Rankings. Available at: <https://atlas.cid.harvard.edu/rankings>
- <sup>14</sup> Biroul National de Statistica (2020), *Produsul intern brut în anul 2019 și trimestrul IV 2019*, available at: <https://statistica.gov.md/newsview.php?l=ro&idc=168&id=6605>
- <sup>15</sup> The borgen project (2019), *Top 10 facts about living conditions in Moldova*, available at: <https://borgenproject.org/tag/moldovas-brain-drain/>
- <sup>16</sup> Biroul National de Statistica (2020), *Forța de muncă în Republica Moldova: ocuparea și șomajul în trimestrul II 2020*, available at: <https://statistica.gov.md/newsview.php?l=ro&idc=168&id=6749>
- <sup>17</sup> ODIMM (2020), *ODIMM a lansat un nou program de suport pentru digitalizarea afacerilor*, available at: <https://www.odimm.md/ro/presa/comunicate-de-presa/4624-odimm-a-lansat-un-nou-program-de-suport-pentru-digitalizarea-afacerilor>
- <sup>18</sup> Legis (2020), *Ministerul Finanțelor ordin Nr. 66 din 20-05-2020 cu privire la aprobarea Regulamentului privind modul de subvenționare a dobânzilor la creditele bancare contractate în perioada 1 mai 2020 – 31 decembrie 2020*, available at: [https://www.legis.md/cautare/getResults?doc\\_id=121495&lang=ro](https://www.legis.md/cautare/getResults?doc_id=121495&lang=ro)
- <sup>19</sup> Legis (2020), *Ministerul Finanțelor ordin Nr. 58 din 29-04-2020 cu privire la aprobarea Regulamentului privind subvenționarea întreprinderilor și organizațiilor necomerciale, rezidente ale Republicii Moldova, care au instituit șomaj tehnic și/sau staționare urmare a situației epidemiologice (COVID-19)*, available at: [https://www.legis.md/cautare/getResults?doc\\_id=121321&lang=ro](https://www.legis.md/cautare/getResults?doc_id=121321&lang=ro)
- <sup>20</sup> See Note 3.
- <sup>21</sup> Agenția de Mediu Instrumente economice de mediu utilizate în Republica Moldova, available at: <http://mediu.gov.md/ro/content/mecanisme-economice-de-mediu>
- <sup>22</sup> ODIMM (2020), *Launching conference of the SME greening program*, available at: <https://odimm.md/en/press/press-releases/events/4761-launching-conference-of-the-sme-greening-program>
- <sup>23</sup> Legis (2020), *Guvernul Hotărâre Nr. 439 din 01-07-2020 cu privire la aprobarea Programului de susținere a afacerilor cu potențial înalt de creștere și internaționalizare a acestora*, available at: [https://www.legis.md/cautare/getResults?doc\\_id=122195&lang=ro](https://www.legis.md/cautare/getResults?doc_id=122195&lang=ro)
- <sup>24</sup> OECD et al. (2020), *SME Policy Index: Eastern Partner Countries 2020: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, European Union, Brussels/OECD Publishing, Paris, available at: <https://www.oecd-ilibrary.org/docserver/8b45614b-en.pdf?expires=1613052515&id=id&accname=guest&checksum=24DDCE768057603227DC57AA42DF2AD9>
- <sup>25</sup> UNCTAS (2013), *Investment policy review Republic of Moldova*, available at: [https://unctad.org/system/files/official-document/diaepcb2013d5\\_en.pdf](https://unctad.org/system/files/official-document/diaepcb2013d5_en.pdf)
- <sup>26</sup> World Economic Forum (2019), *Global Competitiveness Report 2018-2019*, available at: [http://www3.weforum.org/docs/GCR2018/GCI\\_4.0\\_2018\\_Dataset.xlsx](http://www3.weforum.org/docs/GCR2018/GCI_4.0_2018_Dataset.xlsx)
- <sup>27</sup> EU4Digital (2013), *Digital Moldova 2020 strategy*, available at: <https://eufordigital.eu/library/digital-moldova-2020-strategy/>
- <sup>28</sup> Instituția Publică Centrul de Tehnologii Informaționale în Finanțe (2020), *Tot mai mulți agenți economici și cetățeni utilizează Ghișeul unic de raportare electronică*, available at: <https://www.ctif.gov.md/ro/tot-mai-multi-agenti-economici-si-cetateni-utilizeaza-ghiseul-unic-de-raportare-electronica>
- <sup>29</sup> National Bank of Moldova (2020), *NBM Interest rates*, available at: <https://www.bnm.md/en/content/nbm-interest-rates>