

Small and Medium Enterprise Sector Development Strategy for 2012-2020

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PROBLEM STATEMENT

Small and Medium Enterprise Sector Development Strategy for 2012-2020 (hereinafter referred to as Strategy) and Action Plan for 2012-2020 upon its implementation serve as a major framework for long-term and short-term policies aimed at the development of microenterprises, as well as small and medium enterprises (hereinafter referred to as SMEs) of the Republic of Moldova. This framework further supports the country's transition from the economic development model based on consumption towards a new paradigm focused on exports, investments and innovations, as well as taking into account current economic trends and the future prospect of European integration.

The SMEs sector is of specific importance for the development of the Republic of Moldova. In the period of creation of market relations, the SMEs role was determined not only by the existent structure of the economy, in which a considerable share belonged to the kinds of activities preferred by small enterprises, but also by the availability of human resources having lost their jobs, unused equipment and secondary raw materials that could be optimally used by small-scale businesses.

In the past 20 years the SMEs sector in the Republic of Moldova has improved both quantitatively and qualitatively. Unsurprisingly, the global financial and economic crisis has had an adverse effect on SMEs. Recent studies on the specific impact of the crisis on the SMEs sector, make it possible to better tailor policies that aim to bolster growth in this sector despite a pervasive lack of market confidence.

SMEs constitute an essential share of the total number of economic entities in the Republic of Moldova; they create jobs and modest level of incomes, and supply the market with goods, contribute to the Gross Domestic Product (GDP) of the country.

Characteristics of major SMEs indicators, assesment of capacity and contribution of the given sector to economic development of the Republic of Moldova, as well as its evolution during the recent years marked by the financial crisis will make it possible to identify strengths and weaknesses of Moldovan SMEs in comparison with other European countries and to substantiate the main directions of their development and support measures to be taken by the state.

The quantitative impact of SMEs on economic growth will be mesured using SMEs share of total GDP. The value of SMEs share of GDP is an indicator that can vary considerably depending on the country. In the EU, for example, the SMEs sector generates 58.4% of GDP while in the USA it accounts for 43.4%, as of 2009.

In 10 out of the 12 BSEC countries SMEs share of GDP constitute less than 50% and in 5 of those countries less than 30%. In 2010, Moldovan SMEs accounted for 28.3% of GDP. In all the BSEC countries the SMEs contribution to GDP is relatively lower than its contribution to the assurance of employment, reflecting a lower productivity labour level in the SMEs sector than that in large companies.

The crisis has also impacted other indicators characterising social and economic development, most specifically adversely affecting the development of the business environment.

SMEs in the Republic of Moldova are actively participating in the manufacturing of goods and services satisfying demand, particularly, in the domestic market. However, the country is characterised by a lack of cooperation between large enterprises and SMEs, resulting in a saturation of the consumer market by SMEs.

The proposed Strategy should promote the following: consolidation of SMEs potential with their current role in the economy, more specific establishment of priorities, growth of confidence between the business environment and authorities, as well as the creation of a favourable environment for business generally. SMEs support and development will also contribute to the implementation of other economic policies, such as sectoral, regional, investment, innovation, etc.

The strategy was developed in conformity with the following documents:

- Activity Programme of the Government on European Integration: Freedom, Democracy, Welfare that offers a framework for governance policies of the Republic of Moldova for 2011-2014.
- National Development Strategy of the Republic of Moldova for 2012-2020 that has specified 7 critical problems and subsequently transformed them into strategic long-term objectives including:
 - Adjustment of educational system to match the market needs for labour with an aim of increasing labour force productivity and raising the employment rate in the economy;
 - Reduction of financing costs by strengthening competition in the financial sector and developing risk management instruments;
 - Improvement of business climate through optimisation of normative and regulatory framework and application of information technologies in provision of public services intended for business environment and citizens.
- Other documents on strategic planning of the sector and program documents signed with development partners.

Adoption of the Strategy is based on the need to ensure sustainability in the course of development and implementation of SMEs policies proceeding from the following facts:

- Strategy for Small and Medium Enterprise Sector Development for 2006-2008 and Government Program for supporting SMEs development for 2009-2011 have become invalid;
- Recommendations resulting from the negotiation process on the European Association Agreement between the RM and EU and Deep and Comprehensive Free Trade Area aimed at business policies;
- Recommendations developed on the basis of the Study on Stimulation of SMEs Sector Development conducted by the OECD and aimed at promoting competitive SMEs sector development;
- Implementation of the 10 principles of the Small Business Act for Europe.

Seeking to take into account the latest economic developments, harmonization of the Small Business Act with priorities of the European Strategy 2020 and continuous improvement of business environment for SMEs, the European Commission has offered new actions that should be undertaken in priority directions:

- **Smart regulation** for the purpose of ensuring the opportunities for SMEs to concentrate on major kinds of activity by means of improved legislation, use of SMEs Test in relation to legislative proposals paying special attention to the differences between microenterprises and small and medium enterprises, implementation of the One Stop Shop principle to facilitate administrative procedures and reduce excessive regulations that protract the time frames violating the deadlines specified in the EU instructions.
- **Improvement of access to financing** for investments and development by means of access to loan guarantees for SMEs, mechanisms of consolidated loan guarantees; improvement of access to financing for SMEs including access to the risk capital markets and measures aimed for

familiarizing investors with opportunities offered by SMEs; granting to all the banks, irrespective of their size, a simplified opportunity to implement the EIB loans and EU instruments;

- **Full-scale use of the European Union single market** by means of implementation of measures aimed at collection of debts on trans-border transactions, revision of the system of standardization aimed at the introduction of standards more favourable and more accessible for SMEs; orientation of SMEs toward the use of norms related to the labeling of goods;
- **Adjustment of policies** to SMEs priorities and strategic needs identified through consultations and public-private sector partnership, as well as those resulting from current macroeconomic fluctuations;
- **Development of policies for SMEs** taking into account their complex multisectoral and multidimensional nature. Improvement of legislation in the SMEs sector is based on and conditioned by the importance of this sector for the national economy and its potential for development.

Based on the problems defined above, six priority directions for the SMEs sector have been identified. Each priority clearly formulates a specific problem, describes the existing situation and establishes specific objectives.

The instruments for implementing the Strategy include formulation of a clear vision of their development aiming at the increase of production process efficiency, marketing, growth of products and services competitiveness, as well as assimilation of new production processes.

The present Strategy is based on the values and principles of modern business. It is formulated based on the need of SMEs participation in rehabilitating the Moldovan economy and results from numerous consultations with civil society and recommendations from development partners.

I. TRENDS IN THE SMALL AND MEDIUM ENTERPRISE SECTOR DEVELOPMENT

1.1. Current Economic Situation in the Republic of Moldova and Evolution of Small and Medium Enterprise Sector Development.

During 2011, the economy of the Republic of Moldova was growing continuously, largely fueled by consumption growth. The highest rates of growth were observed in the sectors of investment, transport and domestic and foreign trade.

The nominal value of **GDP**, according to the preliminary data, was equal in 2011 to 82.2 billion lei. At the same time current market prices were also growing – their growth in real terms constituted 6.4% in comparison with those of 2010. GDP growth, as a whole, was caused by the growing external demand for industrial goods produced in Moldova and internal demand in the form of final consumption.

Inflow of foreign currency from abroad, foreign trade intensification, and **fluctuations of the exchange rate of currencies** in the international currency markets influenced the exchange rate of the national currency, which between January and December of 2011 demonstrated, in nominal terms, an improvement in the exchange equal to 3.6% versus the US dollar and decline of 6.4% versus euro.

Evolution of the banking sector contributed to a positive development trend, which was expressed by the improvement of performance indicators (liquidity, efficiency, profitability growth and quality of credit portfolio).

In 2011, investment activity demonstrated considerable growth. It should be noted that the key sources of financing of investment activity were equity funds which constituted 64% of the total amount of investments in long-term fixed assets.

Foreign trade was influenced by the situation in foreign markets, in particular, by the countries that are major trading partners for the Republic of Moldova.

Export growth exceeds the rate of import growth; in 2011, export volume grew by 44.1%, while import increased by 34.7% in comparison with the previous year. The degree of coverage of import by export grew from 40% up to 42.8%.

The reporting year demonstrated considerable growth of export of goods to the EU countries (+48.6%), the CIS countries (+47.3%) and other countries (+13.8%).

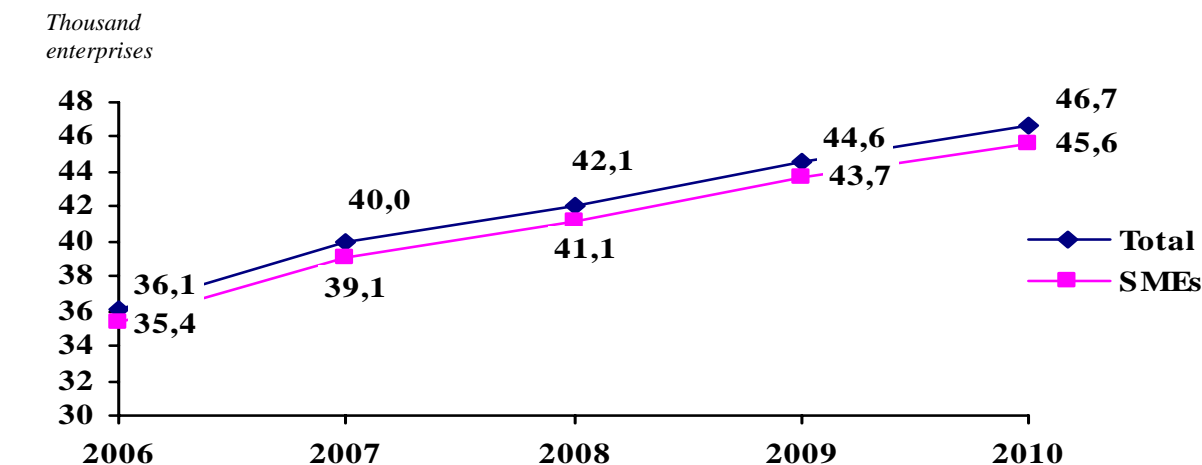
The predominant products imported were those necessary for supplying the national economy with raw materials and energy, as well as consumer goods. The volume of import from the European Union countries grew by 32.4%, from CIS countries by 36.3% and from other countries by 36.6%.

SMEs Structure and Evolution¹

SMEs in the Republic of Moldova constitute about 97.7% of the total number of enterprises of the country. Between 2006 and 2010, SMEs demonstrated positive development by all the indicators, which shows that, as a whole, the sector was profitable and made a positive contribution to GDP. The best results were noted in the category of small enterprises.

In 2010, the number of SMEs constituted 45.6 thousand enterprises, which was 1.9 thousand (4.3%) larger as compared to the year 2009 and 10.2 thousand enterprises (by 28.8%) larger compared with 2006. Within the SMEs sector, the fastest growth of emerging enterprises was seen amongst microenterprises, growing from 27.27 thousand entities in 2006 to 34.9 thousand entities in 2010. For comparison, during this same period the number of small enterprises increased by 2.6 thousand entities, i.e. 39.5%.

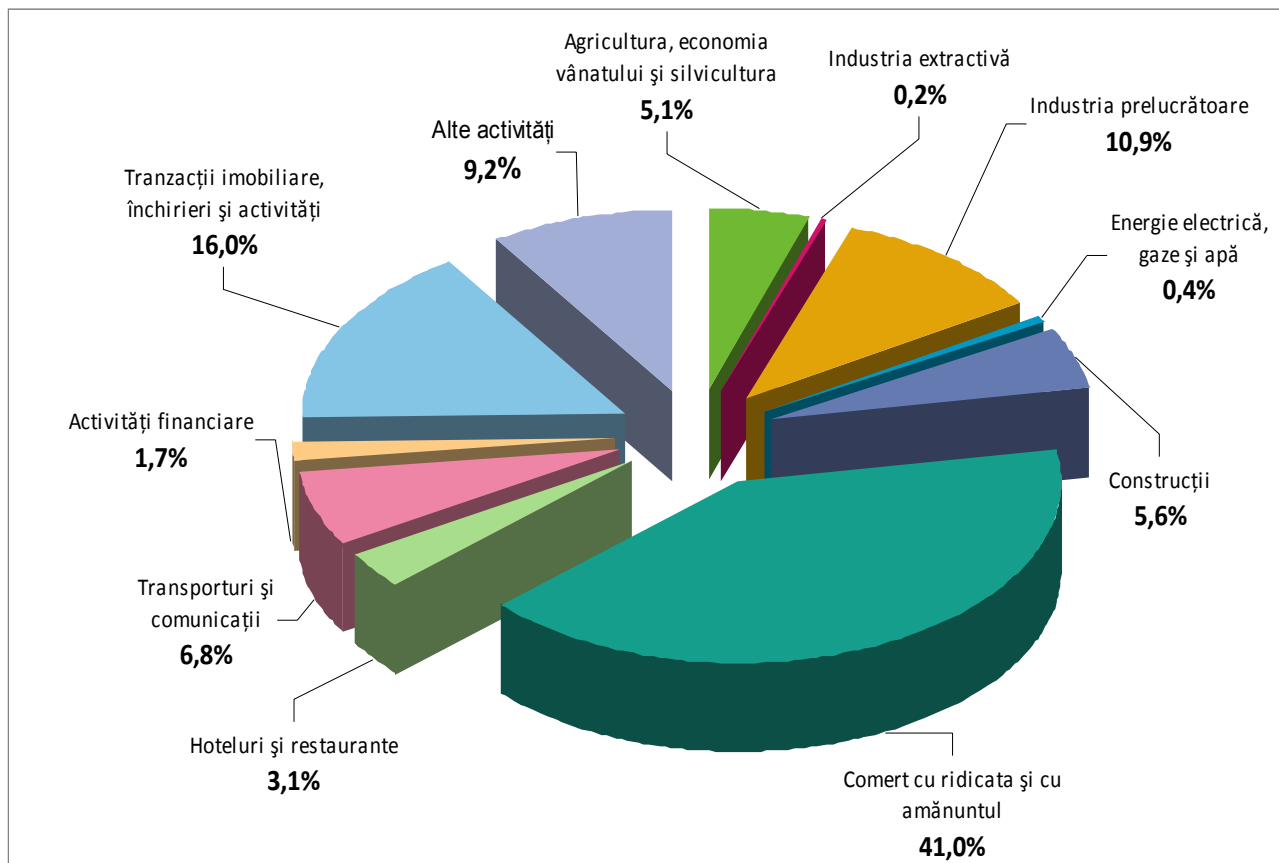
Figure 1: Evolution of the number of SMEs in the period of 2006-2010



¹Data of the National Bureau of Statistics (www.statistica.md)

The largest share of SMEs activity is in trade. In 2010, their number constituted about 18.7 units, or 41% of the total of small and medium enterprises, which constituted growth of 4.5% from the previous year and growth 28.4% from 2006. In 2010, 5.1 thousand SMEs were engaged in the processing industry, which was by 0.4 thousand, i.e. by 10% more than in 2006. The rapidly growing number of SMEs engaged in the industrial sector signifies that this sector is in an important stage of development. More SMEs engaged in industrial activity will result in more efficient infrastructure, skilled staff and stability in the market.

Figure 2: *Share of SMEs by major types of activity in 2010*



Man Power Occupied in the SMEs Sector²

At the end of 2006, the average number of salaried workers in the economy of the Republic of Moldova constituted more than 575 thousand persons, while in the SMEs sector it was equal to 332.7 thousand persons, accounting for 56.2% of all employed persons. About 24% of workers were occupied in wholesale and retail trade, 20% in agricultural activities, hunting and forestry, and 18.4% in the processing industry.

In 2010, SMEs engaged 309.4 thousand persons, which constituted 58.8% of the total number of the employed population. Twenty five percent of workers engaged in the SMEs sector were involved in wholesale and retail trade, 15.6% – in agricultural activities, hunting and forestry, and 16.8% – were occupied in the processing industry (fig. 3).

²Data of the National Bureau of Statistics(www.statistica.md)

Figure 3: Shares of the numbers of workers occupied in SMEs by major types of activity in their total number, 2010.



The number of workers per one enterprise in 2010, on the average, constituted 6,8 persons, which is by one person less than in 2009 and by 2,6 persons less, than in 2006.

In 2006 and 2007, there was registered growth of the number of persons occupied in SMEs (+4.9% and +3.3% a year), which went down in 2008, 2009 and 2010 by 4.5%, 3.6% and 2.2% a year, accordingly.

Regional analysis shows that the labour force occupied in SMEs in 2010 is concentrated in the area of municipality of Chisinau – 164.4 thousand persons; next was the region of the North – of 58.5 thousand persons followed by the region of Centre – 49.9 thousand persons, South – 24.6 thousand persons and ATU of Gagauzia – 12.0 thousand persons.

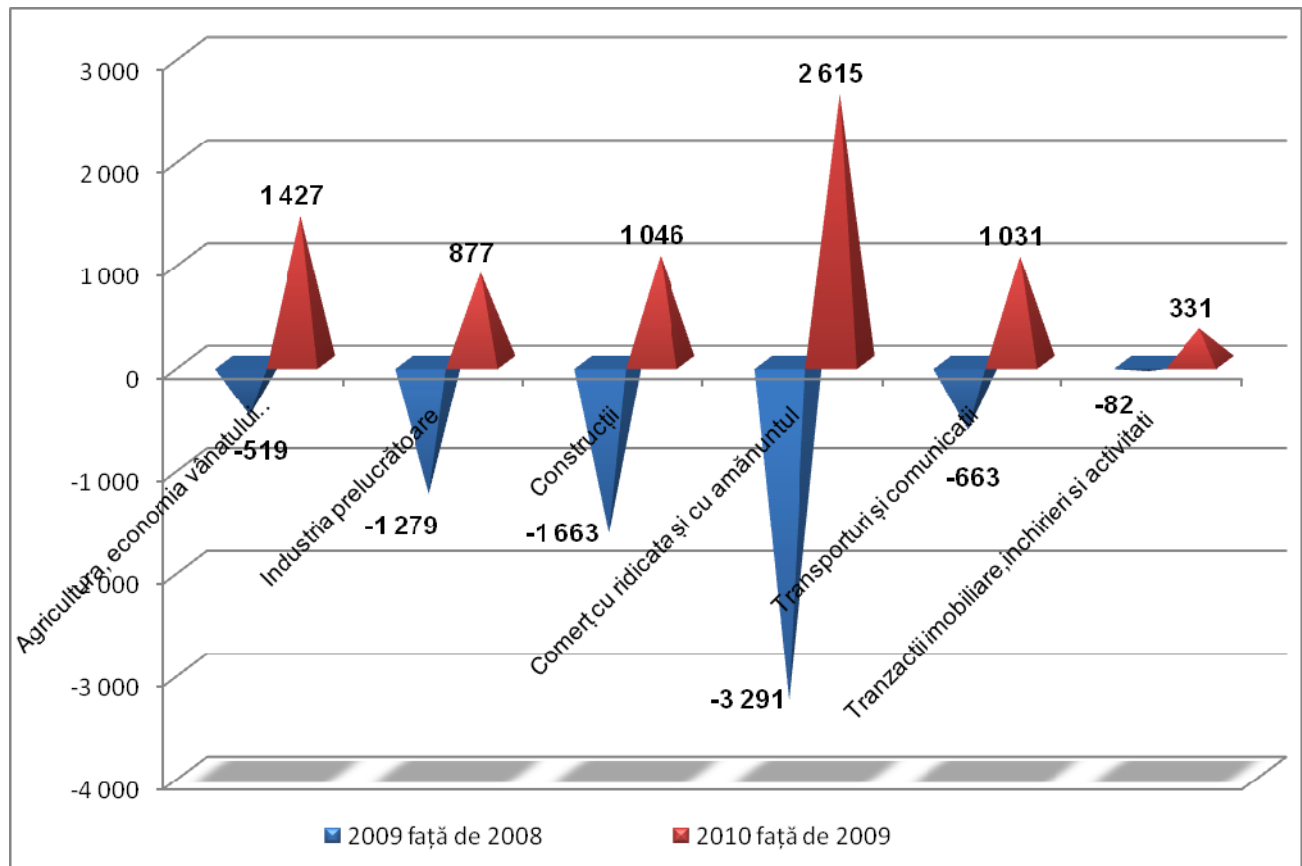
Economic and Financial Evolution of SMEs³

In 2009, SMEs in most of the national economy sectors registered a decrease of performance indicators. Proceeds from sales went down in all spheres of activity except for those in the financial sector. However, during 2010, the profitability of the SMEs sector not only returned to normal but improved considerably with SMEs registering growth of earnings in all spheres of activity (fig. 4).

³Data of the National Bureau of Statistics(www.statistica.md)

Thus, while in 2009 SMEs proceeds from sales reduced in comparison to 2008 by 7504.1 million lei, in 2010 they increased by 7783.2 million lei in comparison with the previous year, amounting to 65263.2 million lei in total.

Figure 4: Evolution of SMEs proceeds from sales in dynamics, according to sector (million lei)



This evolution is a result of SMEs flexibility, particularly due to the large share of microenterprises within the SMEs sector. This specific group of firms is able to restructure and reorient much quicker than larger enterprise, and thus more efficiently respond to market changes in times of economic crisis.

In 2010, SMEs proceeds from sales constituted 1430 thousand lei per enterprise, on average, or by 114 thousand lei (by 8.6%) more in comparison with the year 2009. More specifically, SMEs proceeds from sales per worker, on average, constituted 210.9 thousand lei, amounting to 29 thousand lei (by 16%) more in comparison with 2009.

The SMEs' financial result in 2010 is characterised by the receipt of profit in the size of 5456.9 million lei, signifying an increase of 3213.7 million lei in comparison with the year 2009 and of 3709 million lei versus the year 2006.

At the same time, in 2010, 21.7 thousand SMEs, or 47.6% of the SMEs sector incurred losses. Beginning in 2006, there was a registered decline of 3 percentage points in the number of enterprises having suffered losses with their sum having decreased by 979.2 million than compared with previous years.

In 2010, the contribution of small and medium enterprises to overall GDP was 28.3%, 6.7 percentage points lower than in 2006.

Conclusions:

The global financial and economic crisis had substantial adverse effects on the development of the SMEs sector indicators.

- In 2005-2006, according to the statistics, there was registered growth in almost all the indicators of the SMEs sector including: number of enterprises, number of workers, share of SMEs in the GDP and profit.
- Between 2007 and 2009, the trend in indicators differed considerably: (i) number of SMEs continued to grow; (ii) share in the GDP started to decrease slowly; (iii) number of workers started to decrease substantially beginning in 2008; (iv) overall amount of before-tax profit increased in 2007-2008, however in 2009 dropped considerably.
- In 2010, almost all the indicators demonstrated growth. The number of enterprises continued growing; share of GDP remained on the level of 2009, but reduced in comparison with the year 2006; profit reached the level of that in 2008 (in value terms, excluding inflation). The decrease trend was characteristic only of the indicator characterizing the **number of workers** that continued going down starting with the year 2008 (the given trend was noted not only in relation to SMEs, but also to all the companies).

The global economic crisis had different effects on the different subcategories of SMEs. For example, growth of the number of enterprises in the SMEs sector was taking place, in particular, at the expense of small and the micro-enterprises.

At present, the data related to micro-enterprises functioning without registration is non-comparable. There is no consolidated register that would make it possible to analyse activity of all small and medium enterprises, as well as of patent holders working in the country. As a consequence, profound analysis of SMEs sector development at present does not seem possible.

1.2. SWOT - Analysis of Small and Medium Enterprise Sector Development

Analysis of strengths and weaknesses of the SMEs sector, as well as its opportunities and threats are presented in Table 1.

Table 1. *SWOT-Analysis of the SMEs Sector*

Strengths	Weaknesses
<ul style="list-style-type: none">• Developed and consistently updated legislative framework on SMEs development;• Facilitated registration procedures for SMEs;• Implementation of state strategies, programs and mechanisms aimed at SMEs support;• Favourable geographical situation of the country between the EU and CIS countries;• Positive attitude of the population towards SMEs and starting ones own	<ul style="list-style-type: none">• Low efficiency of the legislative framework implementation;• Unbalanced development of SMEs in the territories;• Inefficient dialogue and cooperation between the enterprises and public authorities;• Limited financial potential for SMEs support by the state;• Lack of instruments for financial support of innovation projects;• Low level of development of innovation and its absorption;

<p>business ;</p> <ul style="list-style-type: none"> • Labour force with knowledge of foreign languages; • New skills received by emigrants that are transferred to the greater population upon their return; • International cooperation in the given field (CIS Advisory Committee on Small and Medium Enterprise Support and Development and BSEC Working Group on SMEs); • Well developed communication system including access to Internet; • Very competent staff in the ICT sphere; • Assurance of trade preferences (CIS, CEFTA, EU, Turkey). 	<ul style="list-style-type: none"> • Monopolisation of national economy sectors and unfair competition; • Underdeveloped infrastructure for supporting businesses and capital markets; • Low level of business culture and vocational training; • Insufficient knowledge of export techniques/access to foreign markets and insignificant share SMEs engaged in export; • Low level of SMEs competitiveness.
<p>Opportunities</p> <ul style="list-style-type: none"> • Growing attention of the state towards problems and needs of the SMEs sector; • Creation of Advisory Committee on SMEs; • Development of investments in public-private partnership; • Pro-European vector of national development; • Expansion of the sphere of international cooperation; development of trans-border cooperation for SMEs and regional infrastructure along with consolidation of contact points; • Constant development of internationalisation of the SMEs sector; • Constant development of technologies and innovations, as well as opportunities for their assimilation; • Development of cluster policies; • Constant reform of educational system in the sphere of business and vocational training; • Constant development and improvement of intellectual property rights; • Development of consulting services market; • Support for development of Credit History Bureau • Constant simplification of the registration process for SMEs and regulation of their activity. 	<p>Threats</p> <ul style="list-style-type: none"> • Existence of territorial conflict; • Considerable immigration of youth and lack of inflow of young specialists in the field of entrepreneurial activity; • Shadow economy growth; • Pressure in connection to international competition; • Energy dependence of the country; • Slow adjustment of educational system to market demands for labour; • Insufficient participation of businessmen in educational programs on business; • The trend of growing fiscal burden; • Instability of legislative framework.

The SWOT- analysis shows advantages and opportunities for SMEs development as well as weaknesses and threats related to SMEs that should be taken into account.

In this context, the need for SMEs sector support through the creation of stable legal and economic conditions favouring entrepreneurial activity development is evident.

II. STRATEGIC DIRECTIONS OF DEVELOPMENT

2.1. Vision and Mission of the Sector

Strategic Vision: *“Small and Medium Enterprises from the Republic of Moldova serve as a factor of steady economic growth and national competitiveness.”*

Successful implementation of the Strategy will promote:

1. Average growth of the number of SMEs per 1000 persons up to 25 SMEs by 2020;
2. Growth of the number of workers employed in SMEs up to 65% by 2020;
3. Growth of the SMEs share in GDP up to 38% by 2020.
4. Ensuring effective competition by strengthening competitiveness and facilitating growth and sustainable innovation of SMEs.

Strategic Objective: *“Creation of a favourable business environment, promotion of business culture in the course of SMEs support and assurance of social unity.”*

To accomplish the objective it is necessary:

1. To coordinate processes with existing SMEs policies developed by the European Union;
2. To improve conditions for business development;
3. To improve quality of products manufactured by SMEs;
4. To increase access for SMEs to public procurements and to increase opportunities for their acting as subcontractors;
5. To speed up implementation of business training programs;
6. To consolidate the SMEs role as generating new employment, which will promote differentiation in the economic development of regions.

In the light of the previous measures mentioned above, the Government of the Republic proposes to implement the following priority directions in the period of 2012-2020 for implementation of the proposed objective through accomplishment of the Strategy:

- I. Adjustment of the normative and regulatory framework to match SMEs needs
- II. Improvement of access to financing for SMEs
- III. Development of human capital through promotion of competences and entrepreneurial culture
- IV. Increase SMEs competitiveness and stimulation of innovation spirit
- V. Facilitation of SMEs development in regions
- VI. Business partnership development

Each of the priority directions should include certain objectives of their own including, in the context of the given Strategy, specific predictable and commensurable tasks implemented by means of development programs, projects and actions included in the Action Plan on Strategy Implementation. Deadlines for accomplishment of each Action Plan will be 3 months from the time of inception.

2.2. Priority Directions:

2.2.1. Adjustment of the Normative and Regulatory Framework to the SMEs Sector Needs

Problem Statement

Regulation optimisation and reduction of administrative pressure is an important element for SMEs development as bureaucracy is a proportionally larger burden for SMEs than for large companies. The latest economic crises has revealed at the global level the existing shortcomings in the field of business regulation and has served as a special occasion for broad-scale simplifications in the financial sector.

Beginning in 2004, with support from international development partners, the Republic of Moldova proceeded in the implementation of an extensive process of reforms in the regulatory sphere. In 2006, under provisions of the Law No 424 of 16.12.2004 On Revision and Optimisation of Normative Framework Regulating Activity of Enterprises named Guillotine I, revision of normative acts of the Government and central public authorities was finalized, and a large-scale review of laws according to the provisions of the Law No 235-XVI of 20.07.2006 On Major Principles of Regulation of Activity of Enterprises named Guillotine II was put in place. Under Decision of the Government No 104 of 01.02.2007, the Strategy on the Reform of Normative Framework of State Regulation of Entrepreneurial Activity and Implementation was approved for the period up to 2010.

Aiming to simplify existing regulation and streamline the number of procedures related to entrepreneurial activity, the process of inventory of authorization documents named **Guillotine 2** + was put in place between 2010 and 2011.

Thus, the acts issued by more than **45 authorities** having the right to issue such documents were subjected to inventory with the number of these acts exceeding **400**. As a result, a package of laws was passed on regulation of entrepreneurial activity through authorisation (it established a list of all the authorization documents at the level of 273, the number of bodies having the right to issue acts was established at the level of 34; there were also fixed validity periods of the documents and their prices); the **Law on Modifications and Additions in Some Legal Acts** (which entered amendments in 18 legal acts by exclusion of the acts and provisions that were related to the acts proposed for exclusion as inappropriate); the Law on Implementation of the One Stop Shop principle in entrepreneurial activity.

The following stage in this process will consist in the implementation of the reform on regulation of paid services, Guillotine 3, which will demand revision of the list of paid services provided to businesses by public authorities, creation of the Single Register of Paid Services and simplification of their provision.

The actions undertaken for improving entrepreneurial activity impacted, among other things, the ranking of the Republic of Moldova in the international rating of favourable business environments conducted by the World Bank. The Republic of Moldova was ranked 81st in the classification of 183 countries having the most favourable business environment according to the annual report of Doing Business 2012 prepared by the World Bank (Moldova has risen by 18

positions since the previous year). In the same context, Moldova ranks 17th out of 27 countries from Eastern Europe and Central Asia. According to these results, Moldova has considerably improved its position in the following areas: starting up a business, access to credit, execution of contracts and regulation of procedures in the case of bankruptcy.

Although regulatory reform yielded considerable results there nevertheless remains a number of unresolved problems, signifying much opportunity for future action. Adjustment of the regulatory framework to be in line with the principles of the Small Business Act remains a challenge. The regulatory framework and its evolution directly impact the realisation of other priority objectives related to SMEs development.

As compared to other states from Eastern Europe and Central Asia, Moldova is efficient, in absolute terms, in two sectors: property registration and execution of contracts.

Between 2008 and 2010, Moldova reached a level of efficiency higher than that of Ukraine yet, lower in comparison with the economies of Balkan and Western countries, with the exception of Bosnia and Herzegovina. Between 2011 and 2012, the situation improved – Moldova ranked higher than Albania, Serbia, Kosovo, the Russian Federation, Bosnia and Herzegovina, as well as the Ukraine.

The conclusion that follows from the World Bank Report of Doing Business 2012 suggests that Moldova has finalized the *process of incomplete regulatory reform*. Considerable progress took place in certain areas of development leading to commensurable improvement in the SMEs sector. Improvement of the company registration process, for example, contributed to substantial growth of the number of new enterprises. At the same time, according to the given report, regulation is still characterised by considerable obstacles which restrain subsequent development of certain SMEs, in particular, those companies engaged in trans-border trade.

The OECD report titled Investment Reform Index (IRI) monitors the evolution of the investment climate in ten economies of Southeast Europe including the Republic of Moldova allowing for a direct comparison of the performance indicators of the Republic of Moldova to be made with those of the states from Southeast Europe.

According to the conclusion made in IRI for 2010, the situation with regards to investment climate in the Republic of Moldova is still below the average level of the countries from Southeast Europe.

Conclusions of the IRI report can be used to supplement the results from the Doing Business Report of the World Bank.

In spite of the fact that during the last few years there was noted success in modernisation of the legislation regulating business activities, this modernisation contributed to the improvement of business climate in the country only to a limited degree. Introduction of an improved normative framework led to positive changes in some highly specialised areas, for example, in the registration of commercial societies or registration of property.

In this situation, bringing the normative and regulatory framework in conformity with SMEs development needs will make it possible to reach the following specific objectives:

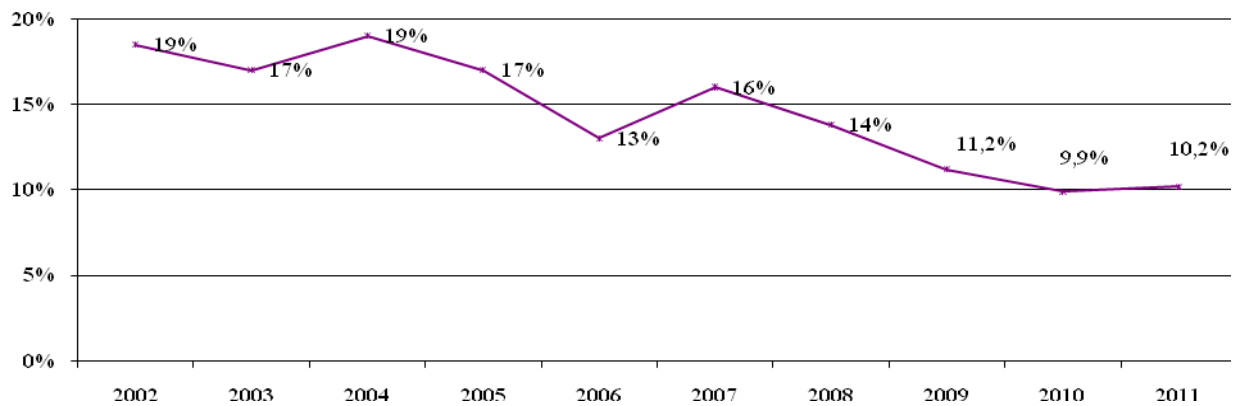
- Improvement of the normative and regulatory framework in relation to SMEs activity.
- Reduction of administrative barriers and cost of SMEs regulation.
- Optimisation of the SMEs commercial activity regulation.

Performance indicators in this respect will correspond to the indicators included in the National Development Strategy of the Republic of Moldova for 2012 – 2020, namely in the chapter of Business: Clear Rules of the Game.

Anticipated Impact

According to the survey conducted in 2011 on the Cost of State Regulation of Entrepreneurial Activity, in the course of which 600 SMEs were interviewed, the enterprises were found to spend 10 percent of their time annually on the fulfilment of existing regulatory requirements. This indicator in dynamics, based on the survey results, is presented in the figure given below.

Figure 5: Share of Time Spent by Companies on Fulfilment of Regulatory Requirements



The Strategy formulates as its objective optimisation and reduction of the time spent on the fulfilment of regulatory requirements by 3 percent by the year 2020; in absolute terms, time reduction for the SMEs sector on the whole can constitute about 45 million hours. It is important to note that the survey Cost of State Regulation of Entrepreneurial Activity considered only the following elements of state regulation of the SMEs sector:

- Registration of enterprises;
- State regulation in construction;
- Licensing procedure;
- Issuance of authorizations;
- Certification of equipment;
- Import and export procedures;
- Sanitary certification;
- Control on the part of state authorities;
- Tax administration.

According to the conclusions of the Doing Business Report 2012 carried out by the World Bank, the time to be spent on fulfilment of regulatory requirements with regard to the starting of a new enterprise, receipt of construction licence, getting connected to a source of electric power, registration of property, payment of taxes, domestic and foreign trade will constitute by 2020 about 121 million hours. **The goal of the Strategy is to optimise these time outlays and to reduce them to, approximately, 36 million hours.**

Finally, based on the results of these two studies, the following can be concluded: the impact of the measures to be taken in this priority direction, if expressed in absolute terms, will result by 2020 in saving by SMEs⁴ of 4 billion MDL as a result of reduced time spent on the fulfilment of regulatory requirements.

2.2.2. Improvement of access to financing for SMEs

Problem Statement

Access to financing is the major concern of SMEs in the Republic of Moldova. According to the report Cost of State Regulation of Entrepreneurial Activity, 39 percent of enterprises and companies consider that the *main obstacle* restraining business development is access to finance. For example, according to IRI OECD, 2020, only 27 percent of small enterprises apply to the banks for financing investments, whereas 40.3 percent of large companies turn to banks for needed funds.

The degree of penetration of credit in the Republic of Moldova is rather insignificant. In 2011, the share of credits provided to the private sector constituted only 36 percent of GDP. This ratio is much less than the average one typical for the countries of Southeast Europe (SEE) constituting 52 percent.

The degree of penetration of credit in our country is limited due to difficulties arising for enterprises when applying for credit at the banks.

Starting in 2003, interest rates on credit remained stably high. While nominal interest rates on new credit in national currency remained within the range of 18-21 percent, in the end of 2009 they were equal to 20.3 percent. However, in 2011, according to the statistical data provided by the National Bank of Moldova, the average interest rate gradually decreased to approximately 14 percent.

The capacity to make long-term investments, is vital for the growth of innovative SMEs. As long as bank requirements for loans continue to include administration of guarantees, namely collateral in the form of real estate in the size of 60 percent of the market value, SMEs will have to seek out non-banking capital-more specifically, from venture (risk) capital and networks of informal investors. As it follows from the IRI report (OECD, 2010), non-banking capital is insufficiently developed in Southeast Europe including the Republic of Moldova.

In reality, the primary means for financing SMEs activity are equity capital, which, however, is not sufficient for financing the constantly growing needs of monetary resources. The capacity of SMEs to rely on equity capital decreases every year, demonstrating even further the growing role of borrowed capital.

The national legislation is extensive and it does not create obstacles for financing, however, funding remains the main difficulty faced by SMEs in spite of the development of the banking system, system of credit guarantees and bureau of credit histories.

⁴Assessment was carried out according to the standard costs model that is widely used in the countries of the European Union and of the OECD and is aimed for measuring administrative expenses of enterprises that they incur in order to fulfil regulatory requirements of the national legislation.

Bank credits remain the main source of borrowed funds. In 2010, the banking sector started its recovery from the crisis parallel with national economy rehabilitation. As compared to 2009, the credit portfolio increased by 3.1 billion MDL or by 13.7 percent. In comparison to the previous year, the volume of new credits in 2010 augmented by 64.5 percent, with 31 percent of these credits falling on SMEs, an insufficient amount considering that SMEs constitute 97.7 percent of all functioning enterprises.

Microfinancial organisations (MFOs), savings, as well as loan associations (S&L) and leasing companies were developing as alternative financing sources. In 2010 in the Republic of Moldova approximately 43 microfinancial organisations, 400 savings and loan associations and 27 leasing companies were functioning.

Problems concerning access to financing include the following: high and constantly changing interest on credits, lack of longer-term financing funds, lack of collateral and its low liquidity, long procedure of exercising rights against collateral, lack of appropriate banking technologies for SMEs financing, quality of projects proposed for financing, underdeveloped business infrastructure, lack of companies with risk capital in the financial market.

One of the opportunities for financing is the capital market which would make it possible for SMEs to attract long-term investments by issuing shares and bonds.

Inability of the capital market to become an important source of SMEs financing can be explained by a number of factors: lack of local capital that can be involved in the capital market; poor efficiency in attraction of investments; discreet attitude of foreign capital towards national portfolio investments; low interest of the population in transactions with securities; poor penetration of foreign capital in domestic market; and higher bank interest rates in comparison with profitability offered in the capital market.

Modest means proposed in the capital market can be explained by the fact that personal savings investment in the capital market is not stimulated due to high interest rates in banking sector and distrust towards mechanisms and institutions of the capital market. Investments in real estate or other patrimonial assets are a more attractive alternative than investments in securities. Due to this fact, search of non-traditional financing is presently one of the major problems for the national SMEs sector, while a considerable share of non-traditional financing comes from foreign financial assistance.

At the current stage of deficit in business financing, the Republic of Moldova receives financial assistance from different international financial institutions (IFIs) and development partners, as well as through projects and crediting and financing programs ensuring access for SMEs to financial resources in three ways:

1. Direct financing of local monetary institutions that, in turn, provide credit to the SMEs sector against general bank conditions;
2. Apex financing on the first-come, first-served basis; in this case funds are made available for financial organisations aiming at specific and strictly targeted purposes;
3. Lease financing based on the quasi-lease financing schemes.

The major SMEs sector support programs financed by the state and/or development partners include the following: National Program of Economic Support for Youth (PNAET), Pilot Program on stimulation of investment in economy of remittances transferred by migrants (PARE 1+1), JNPGA Program financed by the Government of Japan aimed for SMEs sector development support, Project

on enhancement of competitiveness, Loan Guarantee Fund managed by the SMEs Sector Development Organisation, SMERDA project on rural SMEs development, as well as credit lines of international financial institutions or those provided within the EBRD international programs, Millennium Challenge Corporation, World Bank (IDA) and others.

Although in our country there exists a fairly well established normative and institutional framework for regulation of public procurements, access for SMEs to participation in public procurements is insignificant. There is missing a systemic mechanism that would ensure involvement of SMEs in this process.

The Government is paying special attention to the assurance of access for SMEs to the public procurement market as access to public markets can contribute to the use of available growth and innovation capacities of SMEs. Thus, facilitation of SMEs access to public procurement procedures and increasing numbers of SMEs participating in them will be carried out through the obligation directly stipulated in the tender provision to split goods and services requested by the purchasing organisations into lots and, possibly, items. Thanks to the creation on the portal of the electronic public procurements system of the automated database of goods and services proposed by small and medium enterprises and its efficient functioning, the purchasing organisations could expand considerably the database of potential suppliers, which will impact favourably both growth of competition with regard to obtainment of public contracts and the national economy as a whole.

Proceeding from the problems stated, improvement of SMEs access to financing requires implementation of the following specific objectives:

- Development of innovation schemes for SMEs financing.
- Assurance of effective use of remittances transferred by migrant workers from abroad.
- Attraction of long-term credit lines of international financial institutions.
- Development of credit guarantee system for SMEs.
- Facilitation of access for small and medium enterprises to the public procurement market.

Anticipated Impact

There is a clear and positive correlation between the output volume per capita and per capita capital accumulation. This means that capital accumulation is a decisive factor determining both life standard of the population and level of business development. Accumulated incomes also impact investments. Developed countries are characterised by the trend of investing a larger part of their incomes than the poor ones. This can be explained by the low level of income in poor countries and, consequently, the impossibility to provide incomes for capital accumulation. In this case, availability of borrowed funds that can compensate for the shortage of equity capital for investment in production can be considered as a way out.

Understanding the factors impacting investment is extremely important for analysing and comprehending the volatile nature of SMEs investment activity.

Fixed assets depreciate and the largest part of general investments is used for replacement of the used-up fixed assets without rendering any effect on the investment in new fixed assets.

In developed economies, the size of fixed capital is usually three times larger than the value of manufactured goods for a given year. The period of utilization of fixed assets – most commonly equipment – is roughly between 10 to 20 years. If the ratio of fixed capital to GDP is, approximately, 3:1 in a given economy, while the period of economic utilization constitutes about 20 years, it is necessary to replace, on average, 5 percent of equipment every year. With the ratio of fixed capital to

GDP being equal to 3:1, it means that 15 percent of annual earnings is withdrawn from annual economic turnover only for the purpose of investments in order to maintain the sizes of fixed capital. With many countries experiencing a considerable growth of fixed capital in the course of time, it is no wonder, that the ratio of investments to GDP in the majority of developed countries exceeds 15 percent and is frequently even twice as big.

Let us interpolate this principle on Moldova. According to the National Bureau of Statistics data, the ratio of investments to GDP looks as follows:

Investments in fixed capital, by ownership types	Million MDL		
	2008	2009	2010
Private	7 900	4 701	5 375
Mixed (public and private), without foreign participation	265	223	209
Foreign	2 407	1 080	1 368
Mixed enterprises	3 346	1 960	2 215
Total of investments in fixed capital	13 918	7 965	9 167
Total of domestic product	60 430	71 885	82 174
Investments/GDP ratio	23%	11%	11%

Impact of Strategy with regard to improvement of SMEs access to financing will consist in improved access for SMEs to financial assets, which will ensure the ratio of investments [in fixed capital] to GDP at the level of 15 percent.

This kind of impact is possible , as a cumulative result of the objectives set by the National Development Strategy of the Republic of Moldova for 2012 – 2020 as detailed in the chapter Financing: Accessible and Inexpensive.

2.2.3 Development of Human Capital through Promotion of Competences and Entrepreneurial Culture

Problem Statement

A number of research initiatives and reports undertaken by the development partners and civil society frequently show that the quality of labour force education is one of the main constraints to attracting investments.

The skilled work-force size of the Republic of Moldova has declined considerably as a result of emigration. According to EBRD and World Bank reports, about 15 percent of enterprises cite lack of skilled workers as one of the major problems to growth. Thirty six percent of the working population between the ages of 25-34 have no vocational education. Furthermore, professional skills are becoming increasingly important due to the growing number of older persons amongst the country's population.

Responsibility for policies in the field of education and training concerning entrepreneurial activity belongs to several departments. The Ministry of Education is responsible for business

training in the educational system; the Ministry of Economy has developed and is implementing curriculum for young businessmen and workers; the National Employment Agency delivers training courses including some forms of training in entrepreneurship.

There exist no institutional obligations on inclusion of training in the field of entrepreneurship in the national educational system. Initiatives for its inclusion are implemented by international organisations.

There does not exist a single complex program on assessment of non-conformity of knowledge and skills or on rendering assistance to SMEs for the assessment of needs for training.

At present, business education is provided through optional courses proposed for specialities in economy and subjects recommended by the Ministry of Education included in the national educational program as optional. As to the pre-university education, business training is provided by the non-governmental association of Junior Achievement Moldova (JA Moldova), which carries out its programs and delivers training in coordination with the Ministry of Education of the Republic of Moldova. Depending on the specialisation of vocational educational institutions, business training and development of business skills are included in the curricula, while in the intermediate vocational education this is done in the form of a 72 hour long course.

The intermediate vocational education system allocates 72 hours for an obligatory course in the fundamentals of business.

The intermediate vocational education institutions (colleges) and higher educational institutions deliver training in the field of business within optional courses and within the courses related to economic subjects.

In order to modernize intermediate vocational and special education in conformity with the Copenhagen Process and market demands, the Ministry of Education, in partnership with other institutions and organisations, is undertaking measures aimed at improvement of education in the field of entrepreneurship. Considerable contribution to this process is attributed to the Partnership of the Ministry of Education of our country with the Liechtenstein Development Service Foundation (LED) and Winrock representative offices in Moldova through accomplishment of the project *Business Involvement and Training Activities*. National Program on the subject of Fundamentals of Business is being developed within the mentioned project for the institutions of intermediate vocational education system. Parallel with this, a set of didactic materials for teachers and students for teaching this course will be developed and improvement of educational process efficiency on the subject of Fundamentals of Business. Training and professional development courses for the teaching staff will also be part of the initiative.

The number of business service providers in the Republic of Moldova is equal to 175 including: governmental organisations, private companies, non-governmental organisations, projects financed by foreign partners, industry associations, chambers of commerce that also deliver paid or free consultations on the issues of business. However, only 33.1 percent of companies offer their workers official training. Without receiving any support from the state and without having any confidence in the stability of the trained staff, employers invest very little in the education and continuous vocational training of their employees. The enterprises look upon vocational training not as an investment in their own human resources but rather as an expense.

Training is mostly provided by non-controlled private commercial organisations; however, in the situation of an absence in the country of any national accreditation system of private providers rendering training services it is difficult to guarantee the quality and efficiency of training.

In order to improve quality of business training at all levels, a certification of service providers has been launched within the EBRD TAM/BAS Program using internal accreditation system of business service providers that can be used by the SMEs participating in the Program.

However, SMEs are still facing obstacles in development due to poor orientation in the training services market, absence of a single national system for informing them on the proposal and price of training services and for explaining additional value created by investments in the human capital.

Public policy is aiming to overcome these barriers through the development of continuous business training. The Strategy envisages specific objectives in relation to the development of business and management skills, creation of the system of informational and consulting servicing for SMEs, and namely:

- Creation and development of business education and culture.
- Creation of support infrastructure for such education.
- Creation of informational and consulting system for SMEs.

Anticipated Impact

Importance of training for increasing productivity, obtainment of competitive advantage and, as a result, efficiency of SMEs activity motivated the governments of different countries to invest considerable funds in the programs stimulating improvement of management of small and medium enterprise human resources and their training.

Traditionally, development of human capital through improvement of professional skills and development of business culture was not considered a policy priority important for boosting SMEs competition.

Due to its potential to spur job creation, business education is an important component of economic strategy. Development of human capital through improvement of professional skills and business culture can contribute to a decrease of unemployment levels, growth of the number of new enterprises and reduction of the bankruptcy level of these enterprises.

In spite of the impressive amounts of research analyzing the link between development of human capital through improvement of professional skills, business culture development and SMEs performance indicators, the lack of techniques and data on the quantitative impact of such measures is still missing.

In this sense, the impact of measures to be undertaken in the priority direction of human capital development through improvement of professional skills and development of business culture seems to be an opportunity to reduce the share of bankruptcies among newly created enterprises; the additional effect will be subsequently analysed and determined quantitatively in the course of strategy implementation.

2.2.4. Increase of SMEs Competitiveness and Stimulation of Innovation Spirit

The life standard of a given country is in ever increasing dependence on the level of competitiveness of its enterprises. Competitiveness plays a decisive role when local SMEs have opportunities to access international markets.

The concept of competitiveness is so multi-dimensional that it is impossible to give it just one definition. Indeed, a majority of economies use more than one definition of competitiveness, which nevertheless does not prevent these economies from competing in the global markets. More important than agreeing on a single definition is understanding the elements of what makes a company, industry or sector of economy competitive, which then makes it possible to define a direction for improvement and modernisation of national economies.

In light of what has been said above, enhancement of SMEs competitiveness can be reached through implementation of the following components of development:

1. Stimulation of innovation spirit.
2. Use of efficient energy technologies.
3. Use of information technologies.
4. Increase of exported goods competitiveness including through improvement of their quality.

Problem Statement

Competitiveness of the SMEs sector is substantially determined by the level of innovative and creative activities.

At present, the Republic of Moldova is implementing a policy in the field of innovation that has a minimum impact on the SMEs sector. This can be partially explained by poor interaction of public authorities responsible for the innovation policy with the private sector and universities. SMEs need to cover 50 percent of expenses related to the development of innovations. The number of structures for SMEs support in the implementation of innovations is insufficient.

In order to increase the level of innovative activity of SMEs the Academy of Sciences of Moldova (ASM) and Agency for Innovation and Technology Transfer (AITT) will develop and implement the system for application of innovation programs in the on-line mode. Simultaneously ASM will promote and support SMEs participation in the priority direction of *Research for the Benefit of SMEs* of the Seventh Framework Programme of the European Community for research and technological development. It is recognised that organisation of SMEs in clusters will increase their competitiveness providing an important mechanism for development and growth of private companies. Therefore, the Government will carry on the work related to the creation of a legislative framework stimulating development of clusters. SMEs will be identified from priority sectors which, being united can create clusters as an instrument for local development.

The Republic of Moldova continues facing problems in the sphere of intellectual property. The main factors impeding obtainment of benefits from the use of intellectual property are related to the cost of protection of its rights and insufficient understanding by the SMEs management of the ways the system of intellectual property is functioning. Free provision of services on preliminary assessment in the form of intellectual property audit will make it possible for the SMEs management to optimise the use of the available intellectual property potential.

In the ever increasing globalised world, efficient use of instruments related to information and communications technologies (ICT) will not only strengthen and expand the potential of enterprise management but will also raise national competitiveness and create new employment opportunities. The Government will encourage the use of information technologies, certification procedures for important ICT equipment will be simplified for this purpose; symposiums, training courses and workshops will be held in conjunction.

The basis for doing business via Internet in the information society will require the type of conditions, under which SMEs will have an opportunity to benefit from the opportunities offered by the information society with regard to increase of productivity and competitiveness by means of improved access to information. SMEs will be provided support for the purpose of creation of necessary infrastructure for preparing invoices in the electronic form. The functioning of the electronic services portal for SMEs will be improved. Normative and regulatory framework and necessary infrastructure for development of electronic commerce in the Republic of Moldova will also be provided.

Orientation of the Government of the Republic of Moldova towards a new paradigm of the country's economic development based on export, investments and innovations, as well as challenges related to the environment are dictating the need for improvement of SMEs support mechanisms for their growing competitiveness based on the use of innovations and export potential.

Export promotion services and programs are subdivided into four independent categories:

- 1) Creation of the country's image (including events aimed for public awareness and advertisement);
- 2) Specialised support services (including training and education in the field of trade financing and customs procedures);
- 3) Marketing (including fairs and export missions);
- 4) Market research and publications (Ledermann, Olarreaga and Payton, 2006).

In order to increase competitiveness of exported goods and ensure industrial safety a legislative framework was developed in the field of metrology, accreditation and conformity assessment. The national standardization system was brought in conformity with the European and international standardization systems; a National Standardization Program (NSP) was also developed, providing adoption of 2268 European and international standards. Strengthening of quality assurance infrastructure required an audit of activity and assessment of technical skills in the territorial centres of standardization and metrology.

However, SMEs opportunities to compete at the European level are still limited. The Global Competitiveness Index (GCI) for 2011-2012 shows that the Republic of Moldova is at the first of the three stages of development. According to the same index (GCI), the Republic of Moldova is at the 93rd place having risen in the rating by one position in comparison with the GCI for 2010-2011.

The main obstacles for SMEs in the field of standardization are connected with difficulties in obtaining necessary information, understanding and applying standards, high cost of standardization procedure and, as a result, limited participation in the activity on standardization. The opportunities existent in the market in relation to certification are insufficient and, consequently, exporting companies have a limited choice, while the cost of external certification services is high.

In these conditions, participation of SMEs in the international market competition is limited. The trade model of the Republic of Moldova is characterized by two specialisations: geographical and sectoral. Export is based on the sectors of economy with limited added value: agricultural goods marketed in the CIS countries and textile goods going to the European Union markets. Export potential is limited because of the limited opportunity of integration of innovations, customs procedures, technical barriers, sanitary and phytosanitary measures. According to the *Doing Business Report of 2011*, the Republic of Moldova was at the 141st place among 183 economies. SMEs intending to penetrate on foreign markets often times do not know about opportunities and means of the Government on stimulation of commercial relationships. At the same time, SMEs are lacking marketing strategies and appropriate marketing instruments.

Introduction by SMEs of the quality assurance system providing conformity of products and services to the requirements of ISO 9000 standards brings them to a higher level, ensuring competitiveness and prosperity. In order to develop consulting potential in relation to the introduction of standards programs of technical and financial assistance and training at the local levels will be undertaken.

Expansion of access for SMEs to export markets will base on the accreditation system and certification infrastructure that will be developed for SMEs; there will also be developed local capacities with regard to certification.

In the view of better targeting the state actions aimed to support the development of SMEs with greatest potential for growth, job creation and export competitiveness, the competitive environment assessment practice will be established with a subsequent publication of an annual report that will support policy decisions on competitive environment alleviation and reduction of administrative barriers for SMEs.

In order to resolve the problems stated above, it is envisaged to accomplish the following specific objectives:

- Improvement and development of technical and innovation potential of SMEs.
- Assistance in the formation of SMEs clusters, development of business incubators, etc.
- Support of intellectual property for SMEs.
- Facilitation of access for SMEs to domestic and foreign markets.
- Implementation of management systems based on the international and European standards.

Anticipated Impact

Direct and obvious effect of work in this priority direction will be growth of the GDP share contributed by SMEs and increase of investments and fixed capital.

Impact depends to a great extent on many macroeconomic factors and external economic conjuncture, such as inflation rate, volume of investments, efficiency of capital market and therefore is difficult to be evaluated quantitatively. Due to this, we will be speaking about general impact of the Strategy described in the chapter Vision and Mission of the Sector, and namely:

- Growth of the number of SMEs counted as per 1000 citizens, on the average, up to 25 by 2020;
- Growth of the number of people working in SMEs up to 65 percent by 2020;
- Increase by 2020 of the GDP share contributed by SMEs up to 38 percent.

2.2.5. Facilitation of SMEs Development in the Regions

Problem Statement

Physical and geographical conditions render considerable impact on the potential and economic specialisation of the Republic of Moldova. Analysis of social and economic development by territories reveals obvious discrepancies that demonstrate inequality of administrative and territorial units of the country.

The results also point to growing inequality between different administrative units both with regard to the GDP share formation and life standards of people with the highest indicators being characteristic of the municipalities of Chisinau and Balti.

Taking into consideration the fact that economic, cultural and scientific activities are usually concentrated in the districts with more developed infrastructure and higher quality of life one can draw a conclusion that the Republic of Moldova is running a risk of preserving and even increasing huge inequality between the capital and other territories, which, as a whole, will render an adverse effect on the country's development.

As compared to the countries of Europe, the Republic of Moldova can be characterised by strongly pronounced economic polarisation: half of the country's GDP is generated in the country's capital with its population being equal to 25 percent of that of the country. At the same time, Moldova has the highest share of rural population in Europe accounting for 60 percent of the total population.

Prevalence of a strong rural population and society polarisation negatively affects certain economic indicators such as the number and density of companies, numbers of employees working in them, cost of sales, etc. According to the data of the National Bureau of Statistics, in 2010 in Chisinau there were 30.1 thousand SMEs or 66 percent of their overall number in the country. The same trend is also demonstrated by the SMEs annual turnover indicator equal in Chisinau to 42.4 million MDL, or 65 percent of the overall sales revenues in the country on the whole.

Based on the figures presented above, there arises a need for carrying out of clearly defined regional development policy for the Republic of Moldova.

The general objectives in the policy of regional development envisage reduction of the existing regional disbalance, stimulation of balanced and sustainable development all over the country's territory, revival of 'disfavoured areas', avoidance of appearance of any new disbalance, strengthening of financial, institutional and human capacities for social and economic development of the regions, stimulation of domestic, international and inter-regional cooperation contributing to economic and social development.

Identification of misbalance in the development of regions will base on the constant use of deprivation indices for small regions level (DISR), which will serve as a source of important information, on the basis of which it will be possible to establish directions and priorities for development and effective allocation of financial resources.

Development of industries manufacturing goods with high added value, attraction of investments, transfer of technologies, improvement of infrastructure and quality of environment should become the main direction in the targeted regional policy for SMEs sector development.

The Government will continue its work on intensive stimulation of development and implementation of joint projects in partnership between the public and private sectors, which play a major role in the development of infrastructural facilities in rural areas.

Public policy measures will be aimed at stimulating companies to create network relationships with suppliers, clients and other partners on the basis of formal obligations in the sphere of cooperation and network agreements. Closer cooperation of public research institutions with private companies with direct effect of such cooperation being transfer of technologies and increased competitiveness of enterprises will be also encouraged.

The objective in the development of institutional and business consultations infrastructure is to reduce business risks, facilitate access to markets, speed up SMEs growth and development. There will be set up local and regional consulting centres offering SMEs complex services on the overall business cycle aimed at avoidance of SMEs bankruptcies and facilitation of their integration in the market.

Provision of informational services on the basis of partnership with private consulting companies will be based on the enhanced network of contact points among local governments.

In order to develop competences of local governments and other interested participants using the assistance of international donors, regional development agencies from the north, south and centre of the country will carry out activities aimed for training in the issues of preparation of trans-border projects; this will contribute to the improvement of quality of trans-border projects and will facilitate participation in competitive bidding for project proposals pertaining to the Joint Operational Program between Romania – Ukraine – Republic of Moldova for 2007 – 2013 and other programs.

Priorities of this strategic direction envisage assurance of accelerated development of the SMEs sector as a basis for long-term steady and balanced development of regions in order to eliminate backwardness in the life standards of the people living in different regions, cities, towns and rural areas.

Promotion of the SMEs development envisages achievement of the following specific objectives:

- Stimulation of balanced and long-term development of SMEs all over the territory of the country.
- Assurance of SMEs support infrastructure development in the regions.
- Stimulation of SMEs participation in trans-border and regional cooperation.

Anticipated Impact

Impact of this priority direction depends both on the implementation of other priority directions of the Strategy and macroeconomic factors along with external economic conjuncture. Therefore, the impact will be indirect within overall impact of the Strategy as provided in the chapter Vision and Mission of the Sector.

2.2.6. Business Partnership Development

Problem Statement

There are noted certain preconditions for business partnership development in two priority directions in the Republic of Moldova: partnership between the public and private sectors and business-to-business partnership.

At present, the concept of business partnership development is at the stage of conception.

Public-private sector partnership does not meet the SMEs expectations, as well as those of the authorities. The Law No 179-XVI on Public-Private Partnership was approved in 2008; however, it does not envisage any special norms regulating participation of SMEs in public contracts. In these

conditions, cooperation between the SMEs sector and the state is reduced now only to the public-private sector dialogue.

Despite the fact that certain steps were undertaken to improve the dialogue between the public and private sectors through holding of events provided by the Governmental Program aimed to support small and medium enterprises for the period of 2009 – 2011, they have proved insufficient due to different obstacles having arisen as a result of changes having brought along economic and political instability in the country.

In these conditions, the Government created an Organisation for Small and Medium Enterprise Sector Development under the Ministry of Economy (OSMSD) aimed at increasing competitiveness of the national economy through assistance provided for SMEs development; the organisation acted as a leading intermediary in the dialogue between partners, initiator and defender of SMEs development through diversification of financial and advisory support instruments.

Another initiative carried out by the Government concerning participation of private sector in the process of normative framework improvement in relation to regulation and decision-making is activity of the Working Group on the regulation of entrepreneurial activity that currently provides a major platform for consultations between the public and private sectors of the country.

Every year, the Ministry of Economy organises an international conference of small and medium enterprises where numerous businessmen of the country meet together for discussion of different problems of mutual interest, establishments of favourable long-term business relationships and finding new opportunities for development. At the same time, businessmen receive information about new actions and initiatives of the Government on resolving of identified problems and financial opportunities offered by the financial institutions of the country and international organisations.

Due to the lack of political will and poor understanding of the importance of regional consulting associations, the initiative aimed for development of institutional and functional capacities of the representative organisations of SMEs remains unimplemented. Lack of representative organisations of the business community, limited potential for dialogue between the existing organisations and insufficient transparency on the part of central authorities impede establishment of constructive dialogue between the public and private sectors. Dialogue between the public and private sectors is a necessary precondition for effective implementation of the reforms started by the Government and adaptation of the normative and regulatory framework in accordance with the national economy changes.

The next direction in the development of partnership is business-to-business partnership, based on commercial relationships and strategic communications.

Due to the unstable economic country situation in the country, strategic relationships are very poorly developed and, as a result, there appear gaps in business environment which could otherwise be solved if a system of strategic partnerships was in place. As a result of strategic partnership, there are identified common values and missions, created additional values and observed activity standards of both partners, while employees get internal opportunities for supporting common interests. Unlike this one, commercial partnership bases on the limited risk projects with every partner pursuing commercial benefits, while the partnership is most often based on relationships existing between suppliers, manufacturers and consumers.

At present, existence of representative organizations and business associations, as well as organization of Annual SMEs Forum do not render any significant impact on the business-to-business partnership as the range or products/services proposed by businesses is relatively small.

A clear need for creation of conditions for development of partnership between businesses is apparent due to the fact that it reflects an organised and consistent approach counterbalancing the elements related to obligations, and elements of partnership relationships. In order to remove the obstacles and strengthen partnership the Strategy proposes implementation of the following specific objectives in this respect:

- Development of business partnership between public and private sectors.
- Promotion of business-to-business partnership.
- Assistance in the participation of private sector in the processes aimed for improvement of the normative and regulatory framework and decision-making.

Anticipated Impact

Impact of this priority direction depends both on the implementation of other priority directions of the Strategy and macroeconomic factors along with external economic conjuncture. Therefore, impact will be of indirect nature within the overall impact of the Strategy as provided in the chapter *Vision and Mission of the Sector*.

III. IMPLEMENTATION AND MONITORING OF THE STRATEGY

Strategy and Action Plan

The mechanism for SMEs sector development in the Republic of Moldova includes two interconnected instruments:

- Small and Medium Enterprise Sector Development Strategy for the period of 2012 through 2020 that determines the vision, strategic directions and operative objectives.
- The Action Plan on the implementation of Strategy that identifies events, obligations, deadlines and necessary resources for strategy implementation is split into three stages, three years each, approved during the period of the Strategy effect; subsequently the Strategy will include three Action Plans approved in a chronological order.

Estimation of Strategy Implementation Costs

The financial justification of the Strategy will be done separately for each action plan and will include budgetary and extra-budgetary funds, as well as financial support of development partners.

Each authority responsible for the execution of activities planned for the Strategy implementation will provide financial assets in the annual budget.

Every Ministry involved in development and accomplishment of the Strategy will allocate from its budget funds necessary for financing of all the activities and events planned to be implemented according to the Action Plan.

In some cases, estimated value is included as a result of precise calculation of costs, which made it possible to identify precisely financial means needed at the stage of collection of proposals. In other cases, financial costs are estimated roughly as made at the preliminary stage when estimation of the volume of financing due to well-grounded reasons was impossible.

In the situation, when accomplishment of measures that are not financially covered is a critical necessity, efforts will be made to find financial assets for additional financing including by applying for assistance to international partners.

According to the official exchange rate of the National Bank as of 12 June 2012, the overall estimated costs of accomplishment of the Small and Medium Enterprise Sector Development Strategy for 2012 – 2014 constitutes 363 029,2 thousand MDL with 47 percent of costs having no coverage.

Taking into account the duration of the Strategy implementation, impact of macroeconomic factors, possible changes of external economic conjuncture and beginning of the major part of events in 2012 – 2014, the cost of the action plans on strategy implementation for 2015 – 2017 and 2018 – 2020 is estimated at the rate of 80 percent from the Strategy implementation cost in the period of 2012 – 2014 and is, accordingly, equal to 290 423,4 thousand MDL.

Hence, the overall estimated cost of implementation of the Strategy will constitute 943 875, 9 thousand MDL.

Institutional Framework

Responsibility for coordination of the Strategy implementation and accomplishment of the Action Plan as its component is assigned to the Ministry of Economy.

Ministries and Other Specialised Central Public Administrations

In view of the horizontal structure of the Strategy, responsibility for execution of different elements of the Strategy shall be a responsibility of a number of other ministries and other specialised central public administrations. The competence and responsibilities shall be established both by the Strategy, and the Action Plan.

Organisation for Small and Medium Enterprise Sector Development under the Ministry of Economy shall participate in the implementation of priority directions of the Strategy by virtue of the powers and obligations provided by its Charter including through participation in the development and accomplishment of programs and projects aimed for the SMEs sector development according to the Action Plan of the Strategy:

- Facilitation of SMEs access to informational resources;
- Stimulation of dialogue between the public and private sectors;
- Support in the development of support business infrastructure;
- Administration of the State Credit Guarantee Fund;
- Provision of consulting and training services to SMEs managers and employees;
- Creation and development of business incubators network in Moldova;
- Support in the formation of clusters and innovation networks;
- Support in the creation of business support associations and institutions.

Monitoring and Assessment of the Strategy

Efficiency of implementation of objectives set by the SMEs Support Strategy for 2012-2020 will to be supervised in the process of permanent monitoring and assessment of outcomes of the activities performed:

- There will be formed a group responsible for assessment and monitoring of the Strategy; this group will be drafting semi-annual and annual reports assessing the level of implementation of the planned activities and problems / obstacles in the way of their implementation; the reports will be submitted to the Ministry of Economy.
- All the participants to the process of Strategy implementation will contribute to the preparation of reports on monitoring and assessment, which will ensure transparency and broad participation of the parties interacting in the process under implementation.
- Strategy assessment will be carried out on the basis of measures of efficiency and performance indicators of the process established by the Action Plan on Strategy Implementation that will be reviewed if required.
- Ministry of Economy will be responsible for preparation and presentation to the Government of Annual Reports on monitoring and assessment of the Strategy.
- The reports will be subsequently presented to the Government and published on the web page of the Ministry of Economy and other participating regulatory bodies.

Coordination of Strategy Implementation

Coordination of Strategy implementation will be carried out as follows:

- At the semi-annual meetings chaired by Deputy Prime-Minister, Minister of Economy of the Republic of Moldova.
- At the annual meeting of the Government that will sum up the results attained and existing shortcomings in the Strategy implementation thus ensuring inter-ministerial coordination in the Strategy implementation.
- Permanent dialogue between the public and private sectors within the Advisory Board aimed at assurance of efficient and successful accomplishment of the Strategy.

Priority directions of SMEs development planned by the Strategy and Assessment Reports serve as a basis for the Government for allocation of financial resources for the sector development and achievement of the objectives formulated.