

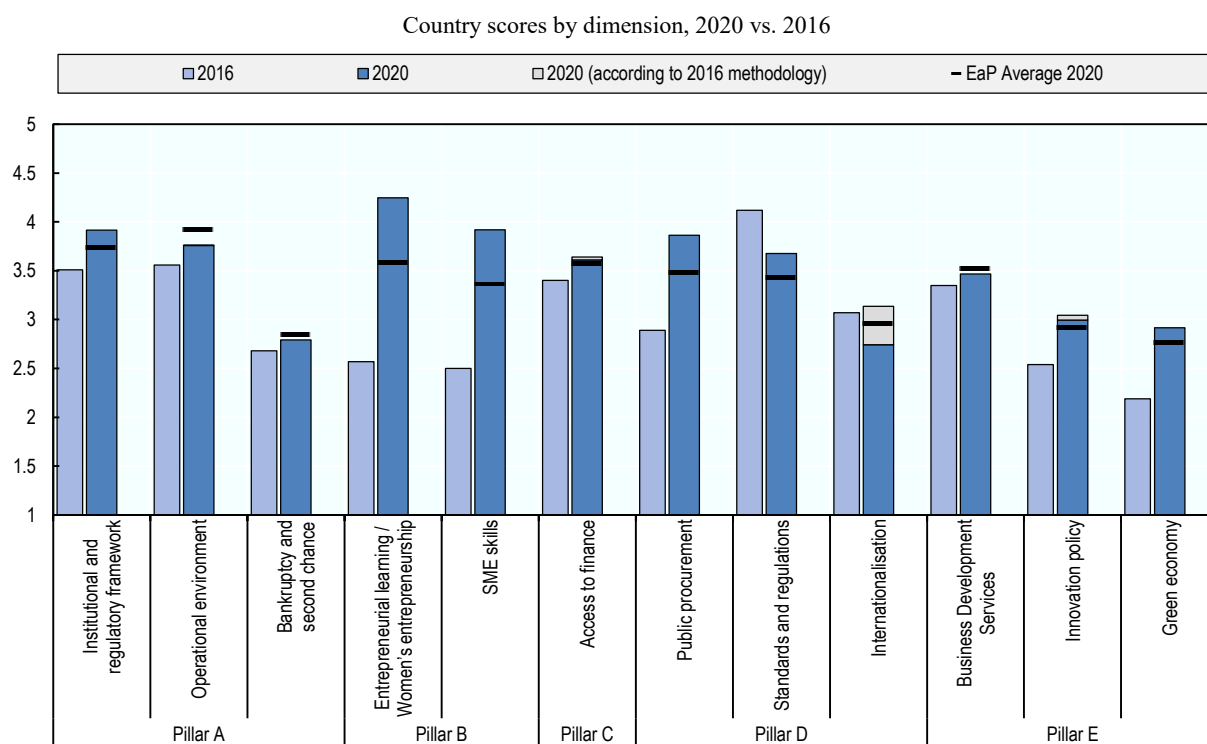
Chapter 11. Republic of Moldova: Small Business Act country profile

Since 2016, the Republic of Moldova has made moderate progress in further developing a conducive business environment for SMEs. Moldova has advanced in the implementation of the SME Development Strategy 2012-2020 with substantial progress in the reduction of burdensome regulation, the implementation of regulatory impact analysis and the provision of business development services for SMEs. Noteworthy reforms also include reinforced policy framework for entrepreneurial learning, start-up support for young entrepreneurs, an expansion of the credit guarantee scheme, broadened e-government services and a formalised public-private dialogue platform.

In future, Moldova should focus on promoting a level playing field for all enterprises through effective competition policy and a transparent and independent judiciary. Considerable work remains to be done to promote entrepreneurial learning, including meeting the specific skills requirements of SMEs. The limited internationalisation of Moldovan SMEs is a long-term challenge, and more emphasis could be placed on making better use of Moldova's DCFTA with the EU. In addition, Moldova could further support the innovation activities of SMEs and their transition to the green economy.

Key findings

Figure 11.1. SME Policy Index scores for Moldova



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Table 11.1. SME Policy Index scores for Moldova, 2020 vs. 2016

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

Table 11.2. Implementation progress on SME Policy Index 2016 priority reforms – Moldova

Priority reforms outlined in SME Policy Index 2016	Key reforms implemented so far
<u>Pillar A – Responsive government</u>	
Adopt the new SME law	Public-private consultation finalised
Formalise public-private consultation mechanisms	Simplified regulation introduced
Continue regulatory simplification in key areas	RIA framework implemented by all the relevant institutions
<u>Pillar B – Entrepreneurial human capital</u>	
Introduce a national vocational school graduates' tracking system	Expanded provision of services in the area of entrepreneurship key competence development through the establishment of the Centre for Entrepreneurial Education and Business Support
Conduct policy consultations on training needs assessment and quality assurance frameworks	Entrepreneurial Education and Business Support
Further develop and offer e-training for SMEs	A dedicated 'Women in Business Programme' implemented by ODIMM
<u>Pillar C – Access to finance</u>	
Improve corporate governance and transparency in the banking sector (including strengthening the capacity and mandate of regulators)	The financial sector has seen increased levels of stability and international investor interest following the IMF-led review
Fill regulatory gaps regarding non-banking financial institutions	A 2018 law on "non-bank credit institutions" has brought various forms of alternative finance under one regulatory umbrella, strengthening, for example, leasing regulations
	A survey of the general population's levels of financial literacy was undertaken in 2018
<u>Pillar D – Access to markets</u>	
Adopt the Export Promotion & Investment Attraction Strategy (2016-2020)	Investment Attraction and Export Promotion Strategy adopted
Implement DCFTA provisions for public procurement	New public procurement law adopted
<u>Pillar E – Innovation and Business Support</u>	
Improve existing support for the development of a business development service market	Supply of business development services increased in co-operation with the private providers
Expand and promote existing financial schemes for SME innovation and greening	National Agency for Research and Development established

Context

Economic snapshot and reform priorities

Growth in Moldova has recovered remarkably quickly from the slowdown caused by the banking crisis and an unfavourable international environment, which resulted in a contraction in 2015 (Table 11.3). This reflects improvements in both external economic conditions and domestic fundamentals (World Bank, 2018^[1]). In 2018, unemployment and inflation rates reached their lowest levels since 2010 (3.4% and 3.1%, respectively) and, together with lower interest rates on new loans, contributed to a modest increase in investment and domestic demand. Personal remittances, which amounted to 16.3% of GDP in 2018, continue to play an important role in Moldova, affecting domestic demand and the current account deficit.

Although services represent 55% of GDP, the agriculture sector continues to play a significant role, accounting for 12% of GDP and more than 30% of employment. Manufacturing in Moldova is driven chiefly by its traditionally strong food-processing sector, which accounts for 37% of manufacturing production. However, FDI inflows directed mainly towards the automotive and machinery sectors are changing the landscape of Moldovan manufacturing.

Table 11.3. Moldova: Main macroeconomic indicators, 2013-18

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth*	Percent, y-o-y	9.0	5.0	-0.3	4.4	4.7	4.0
Inflation**	Percentage, average	4.6	5.1	9.6	6.4	6.6	3.1
Government balance ^{1**}	Percentage of GDP	-1.6	-1.6	-1.9	-1.8	-0.8	-1.1
Current account balance*	Percentage of GDP	-5.2	-6.0	-6.0	-3.5	-5.8	-10.5
Exports of goods and services*	Percentage of GDP	32.1	31.2	31.9	32.3	31.1	30.4
Imports of goods and services*	Percentage of GDP	63.6	62.0	57.4	55.3	54.5	56.3
FDI net inflows*	Percentage of GDP	2.5	3.6	2.8	1.2	1.7	2.1
General government gross debt**	Percentage of GDP	24.9	30.3	37.8	35.6	31.8	29.7
Domestic credit to private sector*	Percentage of GDP	35.7	31.0	29.1	25.6	22.8	23.5
Unemployment ^{2*}	Percentage of total active population	5.1	3.9	3.7	4.2	4.1	3.4
Nominal GDP*	USD billion	9.5	9.5	7.7	8.1	9.7	11.3

¹ General government net lending/borrowing.

² Modelled ILO estimates.

Source: *World Bank (2019^[2]), *World Development indicators*; **IMF (2019^[3]), *World Economic Outlook*, both accessed on December 2019.

Moldova has a continuously negative trade balance that is only partially offset by remittances, so the current account shows persistent deficits, reaching 10.5% of GDP in 2018. Vegetable products continue to be the main export commodity, accounting for 30% of total exports, followed by machine and electrical equipment (16%) in 2017 (WITS, 2019^[4]). From 2009 to 2017, the share of machinery in total exports increased by 6 percentage points, making it the fastest growing export sector. The EU is the most important and a continuously growing trading partner of Moldova, accounting for 65% of total exports in 2017 (United Nations, 2018^[5]).

Although the National Development Strategy “Moldova 2020” is the main strategic economic policy document, the EU-Moldova Association Agreement (AA), the Deep and Comprehensive Free Trade Area (DCFTA) created in 2014, and the IMF programme that followed the banking crisis in 2015 have been important in shaping policy developments in Moldova, stimulating the speed and depth of economic and financial policy reforms.

Moldova has recently developed a new National Development Strategy, “Moldova 2030”, which is aligned with both its EU AA and the United Nations’ *2030 Agenda for Sustainable Development*. This document will contribute to the strategic allocation of budgetary resources, according to the objectives set for its four basic pillars: (1) Sustainable and inclusive economy, (2) Strong human and social capital, (3) Fair and efficient institutions, and (4) Healthy environment. Although the Strategy does not have specific targets for SME development, many of the priority actions highlighted in the document aim to support entrepreneurship.

Business environment trends

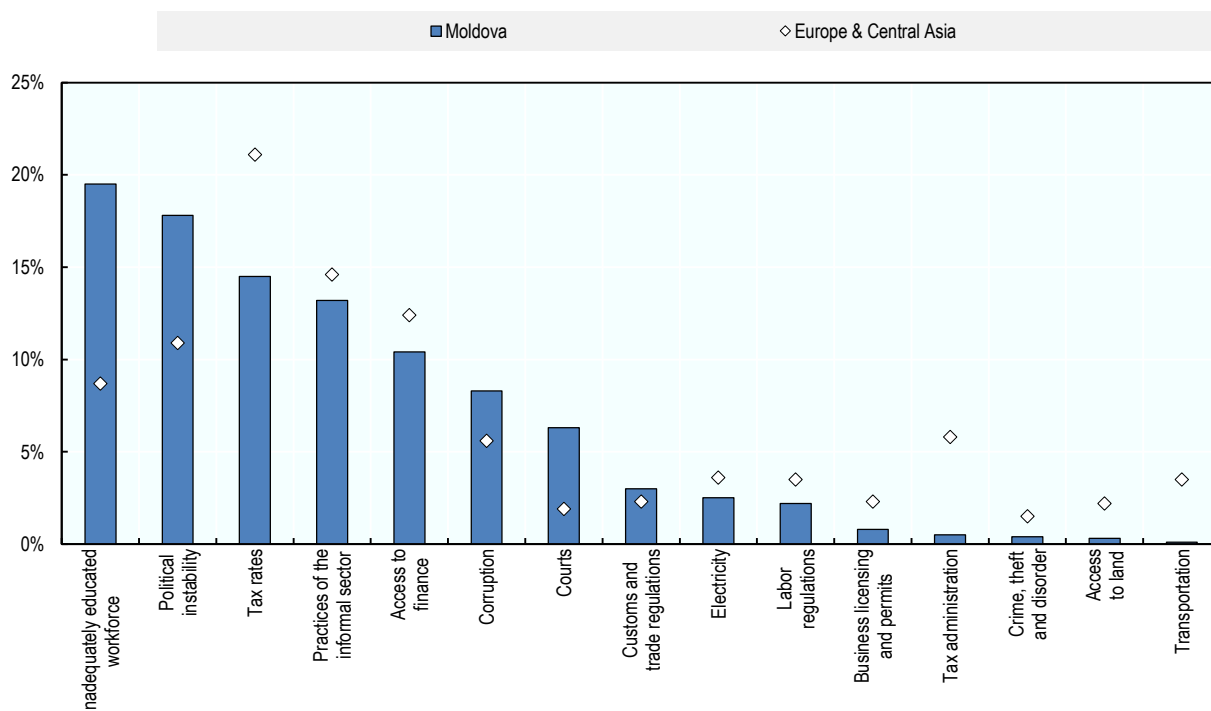
Moldova has advanced in the implementation of its 2012-2020 SME Development Strategy, removing redundant bureaucratic requirements on enterprises, expanding e-government services and implementing programmes to alleviate barriers to doing business. These reforms have been reflected in the 2020 World Bank *Doing Business* report, which ranks Moldova 48th, up from 63rd in 2015. Moldova performs relatively well in the *starting a business* and *registering property* indicators, but underperforms in the *dealing with*

construction permits indicator (World Bank, 2019^[6]). According to the 2019 Global Competitiveness Index, Moldova ranks 86th out of 141 countries, with the financial system, including the financing of SMEs, (ranked 124th and 93th respectively), remaining one of the most problematic issues despite a slight improvement compared to 2018 (World Economic Forum, 2019^[7]).

Despite major improvements in the operational environment for both domestic and foreign companies, important structural challenges remain. For example, massive emigration and a rigid education system have led to shortages of skilled labour – one of the main obstacles to doing business reported by SMEs. In addition, interviews with members of the business community indicate their perception that levels of corruption continue to be very high. Moldova scored 117th out of 180 countries in the Corruption Perceptions Index (Transparency International, 2018^[8]). The impartiality and independency of courts continues to be questioned by the private sector, decreasing investors' appetite to expand their activities in Moldova. According to the World Bank's Enterprise Surveys, 27.4% of the interviewed firms identify corruption as a major constraint, while 30.6% identify the courts system as a major constraint. Those value fall considerably above the Europe & Central Asia averages of 19.4% and 10.1% respectively (see Figure 11.2 for more information) (World Bank, 2019^[9]).

Figure 11.2. Business environment constraints in Moldova

Percentage of surveyed firms that consider a specific business environment obstacle as the most important one.



Source: OECD World Bank (2020), *Enterprise Survey: Moldova*.

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SME sector

The new definition of SMEs adopted in 2016 is in line with EU and international good practices. It uses employment, turnover and balance sheet criteria to determine whether a company is a micro, small or medium enterprise. While the employment criteria are consistent with the EU definition, thresholds for turnover and assets are lower in Moldova, reflecting Moldova's lower per capita incomes.

Table 11.4. Definition of micro, small and medium enterprises in Moldova

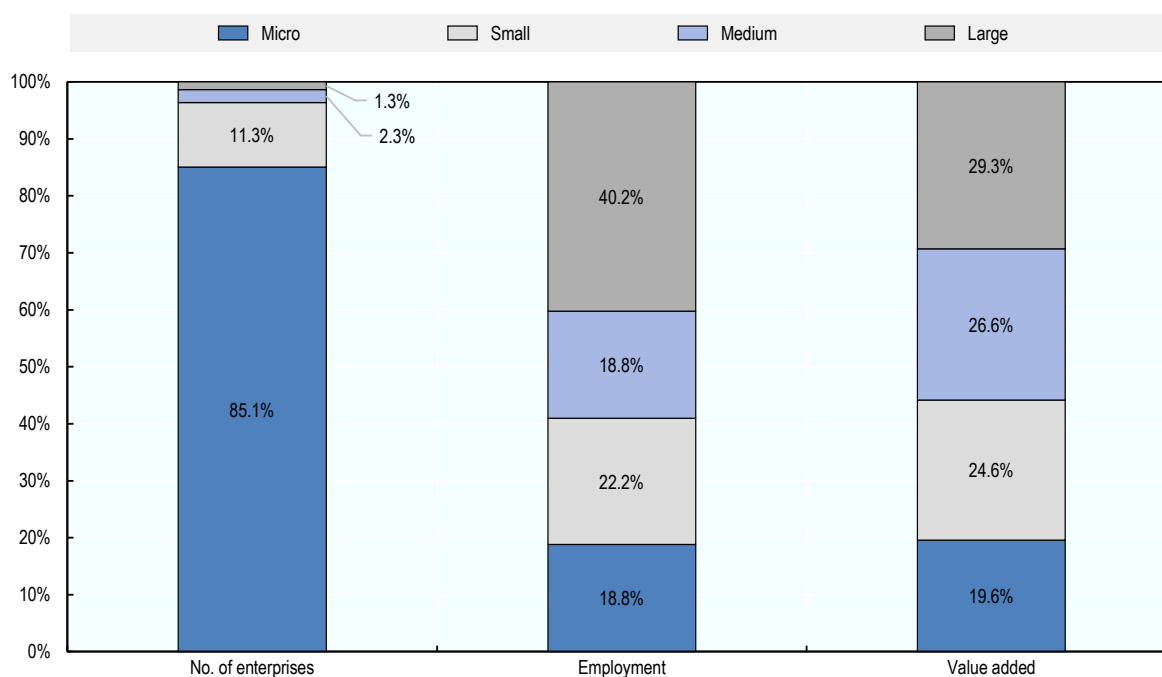
	Micro	Small	Medium
Employment	< 10 employees	< 50 employees	< 250 employees
Annual turnover	< MDL 9 million (EUR 0.46 million)	< MDL 25 million (EUR 1.28 million)	< MDL 50 million (EUR 2.56 million)
Total assets	< MDL 9 million (EUR 0.46 million)	< MDL 25 million (EUR 1.28 million)	< MDL 50 million (EUR 2.56 million)

Note: Exchange rates as of October 2019, per <https://www1.oanda.com/lang/it/currency/converter>.

Source: Law No. 179 of July 2016 "With regard to small and medium-sized enterprises."

Under the new definition, 98.7% of all firms in Moldova in 2018 were SMEs (Figure 11.3), accounting for 59.8% of business sector employment and 70.7% of value added (2017).

Figure 11.3. Business demography indicators in Moldova, 2018 or latest available



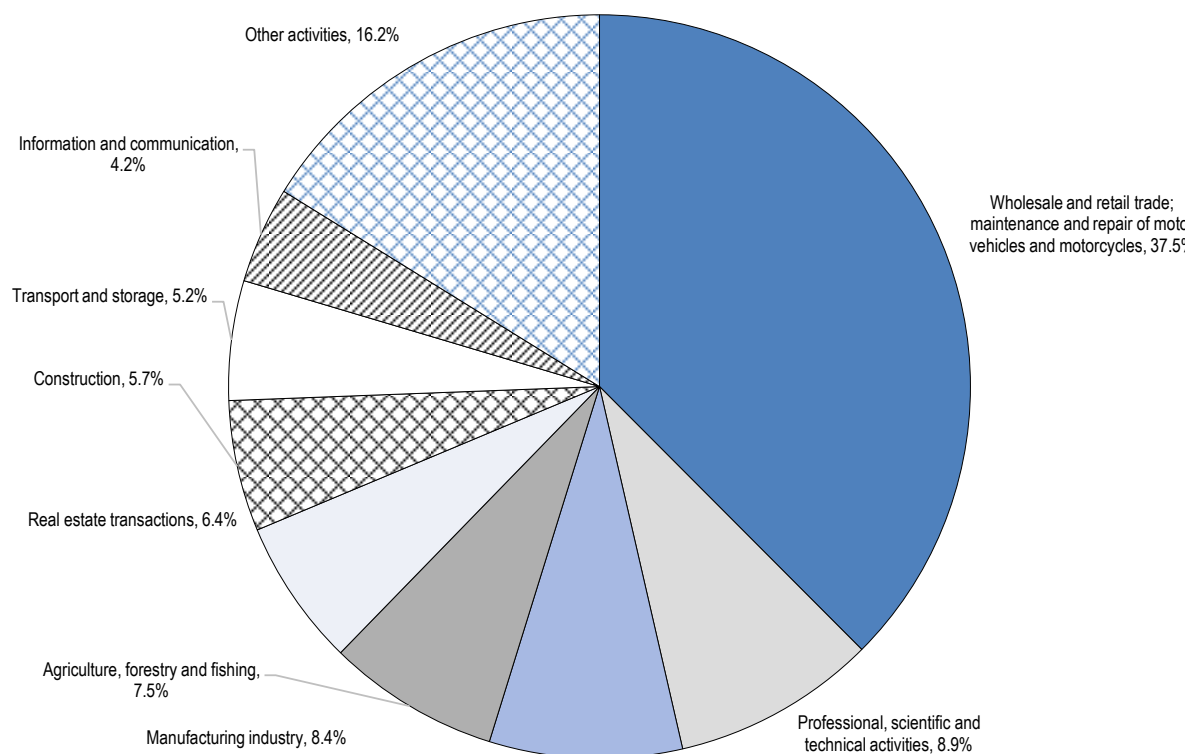
Note: data on the number of enterprises and employment refers to 2018, data on value added refers to 2017.

Source: National Bureau of Statistics of the Republic of Moldova.

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SMEs tend to be concentrated in low-value-added sectors (Figure 11.4) – although less concentrated than in other EaP countries – such as trade (including repair of vehicles), professional, scientific and technical activities, and manufacturing.

Figure 11.4. Sectoral distribution of SMEs in Moldova, 2018



Note: “Other” notably includes accommodation and public catering activities, water distribution; sanitation, waste management, decontamination activities, production and supply of electricity and heat, gas, hot water and air conditioning.

Source: OECD calculation based on data from National Bureau of Statistics of the Republic of Moldova.

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SBA assessment by pillar

Level playing field pillar

Competition

Moldova has moved steadily towards an effective competition law and policy regime. The Competition Council of Moldova (CC) has the powers and tools required for competition enforcement and makes active use of them. In carrying out its enforcement against anti-competitive agreements, abuses of dominance, and merger control, the CC can compel firms to provide all necessary information, can perform unannounced on-site inspections (so-called “dawn raids”), and can impose remedies, sanctions and cease and desist orders. The transparency of the CC’s activities has increased. Guidelines on investigative procedures, the assessment of abuses of dominance, horizontal and vertical agreements, as

well as the CC's decisions are publicly available. The CC also carries out a number of advocacy activities. With regard to public procurement, it holds regular seminars on fighting bid rigging for public procurement officials. In addition, the CC frequently communicates with the government regarding competition issues, it actively comments on draft laws and regulations, and it carries out market studies with the aim of removing barriers to market competition.

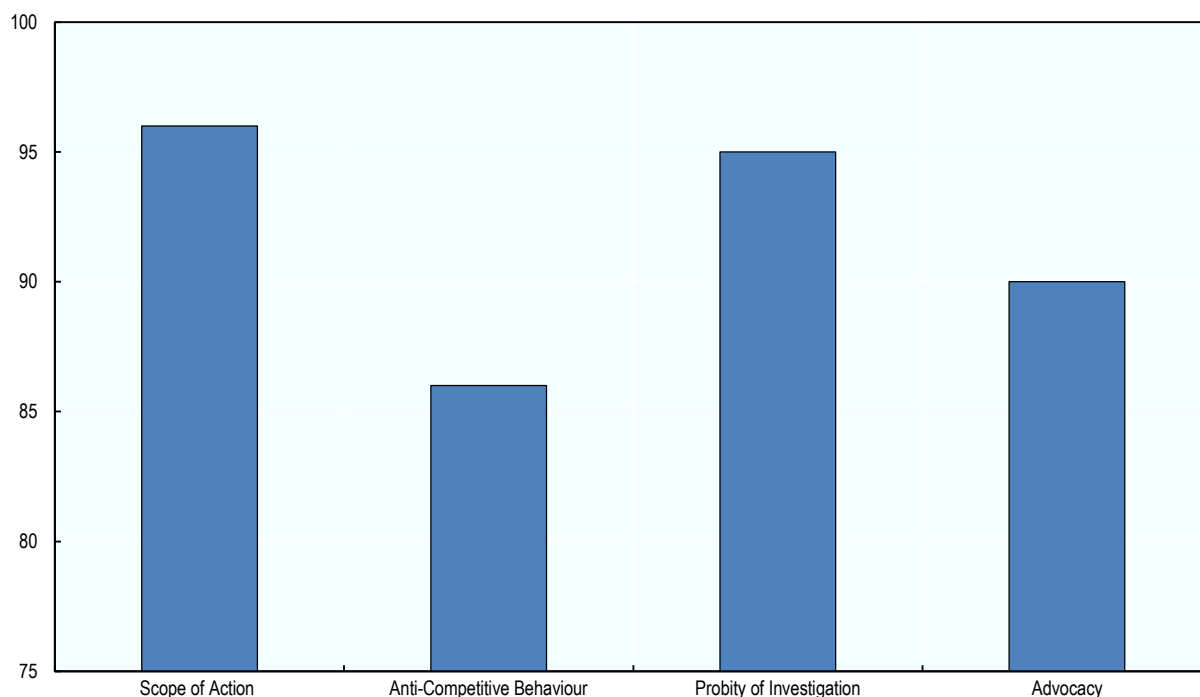
In terms of actual enforcement activity, developments are overall positive. The CC has stepped up its cartel enforcement. The number of unannounced inspections increased from 3 in 2016 to 31 and 27 in 2017 and 2018, respectively. Twice as many cartel cases resulted in fines in 2018 as in 2017, doubling the total amount of fines per year to a total of ~ EUR 500 000. Three decisions on abuses of dominance were issued in 2018. The total number of merger cases, however, amounted to just 41 in the last four years, and they were initiated *ex officio*, as businesses do not seem to take the merger rules seriously. Another important feature of the CC's work is the competition assessment of laws and regulations. It issued more than 300 proposals in 2017/18, of which about 100 were implemented, with a twofold increase in 2018 on 2017.

Moldovan society is characterised by a distrust of state institutions and a large share of the economy is informal¹. Corruption is pervasive. In such an environment, the competition enforcer needs to do everything possible to establish itself as a trusted and independent authority. Only then will businesses be encouraged to invest and engage in business activity, and to compete with powerful incumbents and SOEs. The CC will need to continue to prove its impartiality and function as a neutral referee. This also means that any kind of political intervention (or the appearance thereof) in enforcement or staffing of ODIMM, the national SME Development Agency, needs to be avoided. Independence and neutrality in enforcement, as well as high-quality enforcement, require a budget sufficient to enable the CC to attract and retain highly qualified staff.

The lack of merger notifications suggests an insufficient awareness among the business community of the competition law requirements. The CC should continue to expand its advocacy activities, and should ensure that it uses every business contact as an advocacy opportunity. This includes being open to discussions, informal conversations, and reducing administrative burden wherever possible. Businesses should not perceive the CC as an additional burden, but as an advocate on their behalf.

Figure 11.5. Competition policy in Moldova

Percentage of formally adopted competition criteria, as of June 2019



Note: The chart above refers to the percentage of competition policy criteria formally adopted in the legal framework. It gives equal weight to all criteria. This does not illustrate actual enforcement activity in terms of relevance or quantity, and about the relevance of the criteria lacking or met.

Source: SBA questionnaire, interviews with Competition Council of Moldova and business associations.

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Given that the Moldovan CC has a significant enforcement track record, a deeper assessment of the quality of the enforcement and the legal framework could provide interesting insights into and recommendations on how to further improve competition enforcement in Moldova, and how to align better with international best practices. Peer reviews, as conducted by OECD or UNCTAD, can be a useful instrument, especially considering that Moldova has so far not undergone such an exercise.

The active competition assessment work, as well as the advocacy directed at public procurement officials, could benefit from the relevant OECD guidance and materials – the OECD Competition Assessment Toolkit² and the OECD *Recommendations for Fighting Bid Rigging in Public Procurement*³ – as well as from training in the use of these tools.

Contract enforcement and alternative dispute resolution

Enforcing contracts in Moldova remains a lengthy and cumbersome process, taking 585 days and costing 28.6% of claim value with no changes compared to 2016 performance (World Bank, 2019_[10]). In addition, no system is in place to monitor the execution of judges' decisions and major gaps persist in the information available on pending enforcements (Council of Europe, 2017_[11]). The World Bank has found in its Enterprise Surveys that 30% of small firms and 31.8% of medium firms identify the courts system as

a major constraint (Europe and Central Asia averages are substantially lower, namely 9.4% and 12.3%) (World Bank, 2019^[9]).

Despite this static picture, the government has recently made efforts to strengthen the regulatory framework for contract enforcement in the country. A new procedure for small claims, providing SMEs with a faster dispute resolution, has been available since June 2018. Automation of court procedures is under way, with random case assignment to judges introduced and publication of court judgements in place. The courts' automation, however, will require a major modernisation of the IT infrastructure, which may be challenging given the limited public funds available for justice system reform. As a result, the adoption of key court procedures providing for speedier and more transparent contractual dispute settlement (e.g. e-filing, e-service of process, e-payment of court fees) is progressing slowly. In future, the government should further ensure the effective rollout of the e-justice system to make e-courts fully operational, while also monitoring the performance of the system to address its deficiencies.

Businesses also have limited protection when it comes to appealing administrative decisions directly affecting their property. Public-to-private litigation lacks an independent body to protect businesses' rights in the case of unlawful action or inaction by the public authorities. The establishment of such an institution (i.e. a Business Ombudsman) appears a clear priority for reform.

As regards protection of intellectual property rights (IPR), Moldova has introduced the National Strategy on IPR until 2020, which includes provisions to sanction IPR violations and develops specific IPR protection services for SMEs. However, the enforcement of IPR in Moldova remains problematic, as the country ranks 91th in IPR protection in the *Global Competitiveness Report 2019* (World Economic Forum, 2019^[7]). Also, SME-dedicated measures under the Strategy have had limited impact on SMEs' usage of IPR – only 18 enterprises used the service of pre-diagnosis proposed by the government in 2015-17.

Finally, alternative dispute resolution (ADR) mechanisms are recognised by the legal system in Moldova and are largely available to settle commercial disputes. The Mediation Council under the Ministry of Justice organises and co-ordinates the work of mediators in the country, including certification of mediators and the development of standards and training programmes. While legal provisions favour the use of ADR mechanisms,⁴ these currently represent only 1% of civil dispute settlement, with only 264 commercial disputes resolved through mediation in 2018. Going forward, the Government of Moldova could promote ADR within the business community by conducting awareness-raising campaigns and introducing incentives for companies to use ADR.

Business integrity

The National Integrity and Anti-Corruption Strategy of Moldova 2017-2020 includes a component on business integrity that addresses the issues of transparency of private-to-public relations, the integrity of state-owned enterprises, and business ethics. While this is an important development compared to the previous strategy,⁵ business integrity policy in Moldova still lacks a risk-based approach and an effective implementation mechanism. The government has not conducted a study of corruption risks in the private sector and, according to the National Anti-corruption Centre (NAC), only two of 14 actions planned under the Action Plan were fully implemented in 2017, while eight were implemented partially. Overall, Moldova's performance in international rankings assessing the level of corruption and economic freedom remains weak. The country ranks 97th in the Heritage Foundation's 2019 Index of Economic Freedom, scoring 59.1 (having risen from 111th

place in 2015, with a score of 57.5), with government integrity and judicial effectiveness among the most problematic areas.

Moldova has introduced criminal liability of legal persons charged with corruption (2012) and reinforced mandatory disclosure of final beneficiaries of companies (amendments introduced in 2012, 2014, and 2016) as elements of its corruption prevention framework in the private sector. However, these prevention mechanisms need to be properly enforced to guarantee their efficiency, while others need improvement. The NAC hotline for reporting corruption is known by the private sector, but the majority of surveyed businesses prefer to abstain from reporting (Centre of Sociological, Politological and Psychological Analysis and Investigations CIVIS, 2018^[12]). The adoption of a law on whistle-blowers in July 2018 is an important step towards protecting whistle-blower rights; given the law's short implementation period, however, it is too early to analyse its enforcement and impact on corruption reporting by businesses.

In recent years, Moldovan institutions have implemented a number of actions to promote business integrity and to raise awareness of corruption in the private sector. With the support of UNDP, the NAC carried out a public awareness campaign (“Integrity is freedom”) and a training course on the implementation of the international standard for Anti-Bribery Management Systems,⁶ and developed a Sample Code of Conduct for SMEs. The Competition Council and NAC launched the Anticorruption Co-operation Platform with the Private Sector, an important tool for disseminating and anchoring business integrity practices within the private sector. In addition, the government could further promote the adoption of compliance mechanisms by SMEs through awareness-raising activities highlighting the benefits of business integrity practices for a company's competitive advantage, and by introducing various mechanisms for better business engagement (i.e. tax reductions, whitelisting of companies, integrity awards, etc.) into integrity practices and wider integrity initiatives.

Pillar A – Responsive government

Institutional and regulatory framework for SME policy

Moldova has developed a well-structured institutional and regulatory framework containing all the main building blocks of a proactive SME policy. Progress since the 2016 SBA Assessment has been moderate, with more marked improvements in the area of regulatory reform and regulatory impact analysis (RIA) application.

Moldova has broadly aligned its SME policy with the guidelines set by the European Union's Small Business Act for Europe (SBA). The country's SME definition, reviewed in 2016, follows on the EU definition. Its SME strategy, covering the 2012-2020 period, is designed according to the EU SBA framework. The policy approach is mainly horizontal, placing a particular emphasis on improving the business climate and reducing administrative burdens, encouraging entrepreneurship (particularly among women and in the less developed area of the country) and improving access to finance for SMEs. A section is dedicated to the role that could be played by remittances, a major national income source in Moldova, for the development of small enterprises. The SME development strategy is aligned with the country's mid- and long-term development strategies, “Moldova 2020” and “Moldova 2030”.

The Ministry of Economy is in charge of SME policy and supervises the overall implementation of the strategy, while ODIMM, the national SME Development Agency, is responsible for the implementation of most of the planned actions, according to bi-annual

action plans. Most of the actions foreseen by the strategy appear to have been implemented, and a report on action implementation is available; however, the monitoring reports do not assess the impact of the implemented reforms. The Ministry of Economy, which reports annually to the Council of Ministers on the strategy implementation, is committed to completing an evaluation report by September 2021.

Regulatory reform and the reduction of administrative burdens have been a high priority for the government. Moldova was one of the first countries to introduce the regulatory guillotine process and a number of rounds have taken place, starting from a strictly regulated business environment and having to deal with a complex, inefficient and often corrupted inspection system. Overall, those actions have produced a number of tangible results.

According to the Law on Normative Acts (2017), the application of RIA for business-related legislation should be mandatory, but the practice has not yet been uniformly applied across the public administration. The institution co-ordinating the RIA application is the State Chancellery, through an RIA secretariat, while the RIA methodology has been reviewed in 2016 and brought in line with EU standards.

Moldova has an established practice of consultations with the public and private enterprise sectors. According to the Law on Transparency in the Decision-Making Process (2008), public consultations are mandatory for each legislative and regulatory act that has a social, economic or environmental impact. For this purpose, the government has established a central dedicated website (www.particip.gov.md), but not all branches of the public administration use it to publish draft versions of their legal acts; according to the State Chancellery, 134 draft laws were posted on the website in 2017 out of a total of 185 draft laws recorded by the Chancellery. Meetings regularly take place between SME policy institutions and private sector organisations. Private sector representatives sit on ODIMM's governing body and can present and promote policy initiatives. However, private sector organisations appear to be less active than in the past and have lost some confidence on the effectiveness of public-private dialogue.

Operational environment for SMEs

Moldova has made significant progress in a number of areas related to the operational environment for SMEs, such as company registration and licencing. However, a number of challenges remain related to pervasive corruption and the tendency of public bodies to conduct frequent and often unjustified inspections of private enterprises.

The provision of e-government services is one of the areas where progress has been more notable. In 2016 the government adopted an Action Plan for the Reform and Modernisation of Public Services covering the 2017-2021 period. The action plan's implementation is co-ordinated by the State Chancellery, which presents an annual report to the National Council for Public Administration Reform. Currently, the government provides a wide range of e-government services. Access is granted through an e-signature system and taxes and fees can be paid through the MPay public platform. The availability of internet connection through the country has significantly increased, but the level of IT skills of entrepreneurs remains limited, which prevents the uptake of e-government services.

Company registration procedures have been significantly simplified since 2016. According to the 2020 World Bank *Doing Business* report, it takes three procedures to start a business in Moldova; the entire process takes four days, and the cost is equal to 5% of the country's per capita annual income. In the *starting a business* indicator, Moldova ranks 13th out of

190 countries, up 13 positions since 2016 (World Bank, 2019_[6]). Company registration procedures are conducted in one-stop-shops managed by the Public Service Agency, which is present in 26 cities across the country. Company registration can be partly completed online, but the notifications procedures (registration with the tax office, social insurance organisations and the statistical office) have to be conducted in person.

Moldova has introduced a simplified tax regime for sole proprietors and small companies complemented by low tax rates for microenterprises. Enterprises with a turnover below MDL 600 000 (~ EUR 30 734) are subject to a presumptive tax regime and a tax rate equal to 1% of their turnover, but not less than MDL 3 000 (~ EUR 153). Cash accounting can be applied only to sole proprietors. SMEs with a turnover above the MDL 600 000 (~ EUR 30 700) are subject to a tax equal to 4% of the operational income. According to the 2020 *Doing Business* report, ten tax payments must be made each year, and the fulfilment of tax compliance requirements takes on average 183 hours, while the regional average is of 8.5 payments and 220 hours. The post-filing index, measuring the efficiency of the VAT reimbursement system and tax auditing procedures, is also high, standing at 90.8 /100 (World Bank, 2019_[6]).

Bankruptcy and second chance

The Law on Insolvency no. 149/2012 continues to define the insolvency framework in Moldova. The legislation provides detailed and rigid timing for bankruptcy (two years in most cases) and restructuring procedures (three years, with a possible two-year extension), as well as a favourable framework for the protection and representation of creditors' rights.

However, enforcement issues cause the actual performances of the insolvency framework to remain below the legislation's objectives. *Doing Business 2020* indicates that the average time required for resolving insolvency is 2.8 years, and related costs amount to 15% of estate – similar levels to those registered in *Doing Business 2015* (World Bank, 2019_[6]). The effective implementation of the legislation critically depends on the neutrality and capacity of the judicial system. *Global Competitiveness 2019* ranks Moldova 132th out of 140 with regard to judicial independence (World Economic Forum, 2019_[7]). Moreover, the recent (January 2018) decision to transfer insolvency cases from courts of appeal to regular courts of law – in the absence of specialised courts – is expected to further extend the timeframe required to settle insolvency cases because of the judges' lack of expertise.

Although no major improvements in the legal framework have been formally introduced since the previous SBA Assessment, a draft Law amending the insolvency framework was passed in first reading in December 2018 and is currently pending final reading and enactment. The draft Law aims at bringing the insolvency regime closer to international standards, notably through provisions to increase the transparency of procedures, recover a larger portion of the claims, accelerate restructuring procedures, improve the chances of obtaining finance after insolvency, and enhance protection of debtors against abusive creditors.

However, legislation and policies for preventing bankruptcy and the promotion of second chance for entrepreneurs are not sufficiently aligned and proactive, although the concepts are gaining momentum. ODIMM offers a self-test website providing basic information on entrepreneurship, but systematic training, websites, call centres, or an early-warning system for entrepreneurs fearing financial distress are yet to be introduced. As regards second chance, ODIMM was recently involved in the DanubeChance2.0 project, which aims to set up a transnational strategy on second chance in the Danube region, along with training and restructuring services. Moving forward, Moldova should consider implementing a

dedicated policy strategy or information campaign to promote second chance for entrepreneurs seeking a fresh start.

Pillar B – Entrepreneurial Human Capital

In its drive to establish an open, competitive, job-creating economy, the Moldovan government has put poverty reduction and economic growth at the centre of its master plan, Moldova 2020, with education and the business environment as core areas for reform. This pillar first considers how Moldova is addressing entrepreneurship promotion in its education system (specifically against wider developments within the European Union); it then reviews developments in women's entrepreneurship as part of the wider drive for competitiveness. Finally, the text considers how SME skills are addressed. Recommendations for next-step developments in all three areas are provided at the end of the chapter.

Entrepreneurial learning

Since the 2016 assessment, the overall policy framework for entrepreneurial learning has been reinforced through the 2030 national development plan, backing up the 2020 education and SME strategies that give particular attention to entrepreneurial learning. As noted in the 2016 assessment, efforts to promote entrepreneurship key competence in primary, secondary and vocational education are good but continue to be embedded within specific subjects or optional courses (e.g. career design and development of entrepreneurial spirit). The greater part of non-formal entrepreneurial learning is provided by ODIMM (see below) with good efforts by bodies like the National Youth Council to raise awareness among young people of entrepreneurship potential.

A curriculum review planned for late 2019/20 provides an opportunity to reconcile the existing entrepreneurial learning provisions with the European Entrepreneurship Competence Framework, or EntreComp (Bacigalupo et al., 2016^[13]). The expertise and support of Junior Achievement in promoting entrepreneurial learning in Moldova, including teacher training and support materials, is important. However, greater responsibility and strengthened capacity for curriculum reform, teacher development and school governance vis-à-vis entrepreneurial learning within the national administration will be important for sustained systemic reforms.

The assessment noted important work by the Center for Entrepreneurial Education and Business Support (CEDA) in vocational education, including development and assessment of entrepreneurship competences. It also noted continued promotion of entrepreneurship skills of pupils in post-secondary vocational education. This should be widened to include more developed entrepreneurial experience through work placements where pupils not only have the opportunity to develop occupational skills but also learn how a business works.

Little strategic progress has been made to promote entrepreneurship in higher education. As in 2016, entrepreneurship in higher education remains confined to individual champions within a number of universities (e.g. Technical University, Academy of Economic Studies). University-business co-operation remains underdeveloped. Universities and the wider higher education community, in particular teaching and research staff, should be better integrated into the country's wider economic drive, including the SBA monitoring framework.

Finally, monitoring of all developments in entrepreneurial learning is covered by the education and economy ministries. Specifically for formal entrepreneurial learning

(education ministry), the annual school reporting framework may not be sufficient to capture progress made as the country moves forward with developing entrepreneurship as a key competence. Meanwhile, dialogue with key stakeholders through the SBA assessment drive highlighted that evaluation of entrepreneurial learning remains misunderstood and considered more in terms of how pupils are assessed. At the time of the SBA review, the Institute of Economic Studies was undertaking a review of entrepreneurial learning activities (formal education only). This suggests the Institute could play a larger role in supporting both the education and economy ministries with evaluation of formal and non-formal entrepreneurial learning, particularly in terms of impact on entrepreneurial intention, employability and start-up activity.

Universities and the wider higher education community, in particular teaching and research staff, should be better integrated into the country's wider economic drive, including the SBA monitoring framework.

Women's entrepreneurship

Following up on a recommendation from the 2016 assessment, very good efforts have been made by the Moldovan authorities to improve support for women's entrepreneurship.

First, the SME Strategy 2012-2020 was revised, giving particular attention to women's entrepreneurship. This includes a dedicated "Women in Business" programme supporting women entrepreneurs through all phases of start-up development: pre-start-up and early-phase development through to business growth. Start-up financing is also available, with projections for 2019-20 of 280 women's start-ups and up to EUR 75 000 in start-up capital per business. Additionally, the Business Academy for Women includes knowledge transfer between experienced entrepreneurs and women keen to scale up their businesses.

Second, the setting of targets for women's entrepreneurship is good practice. ODIMM has set a target of 30% for women within its training drive, including a 30% target set for women within the wider effort to support young entrepreneurs and returning migrants, including loan guarantees and credits (ODIMM, 2016^[14]). These targets are already yielding results. For example, under the young entrepreneurs' programme, 45% of those receiving entrepreneurial consultancy are women, with 43% following entrepreneurship training and 30% accessing finance. Further, 34% of 132 occupants of the Moldovan Business Incubators Network are women. But more needs to be done to support women's entrepreneurship in rural areas where employment opportunities are limited and where opting for migration comes at great family and social cost (World Bank, 2017^[15]).

In terms of institutional support structures, the National Council for Women's Entrepreneurship established in 2015 has lost momentum, but its mandate remains important: to ensure that government, private sector and civic interest groups can discuss, review and propose policy options to the government.

A Women's National Platform provides links to women entrepreneurs in local communities, and plays an important role in sharing success stories. It cooperates with ODIMM in hosting a Women's Entrepreneurship Contest with prizes for 1) new product/services, 2) innovative start-up, 3) corporate social responsibility and 4) Women Entrepreneur of the Year.

A new initiative by ODIMM, in partnership with other countries in the Danube region, will map and compare policies and good practices in young women's entrepreneurship development. This provides an opportunity to develop and extend women's entrepreneur networks for good-practice exchange.

Notwithstanding the substantial progress on women's entrepreneurship, in terms of policy, data and training provision, challenges remain – particularly in terms of access to finance, with questions raised as to unequal treatment of women by banks and public authorities. By way of example, in applying for a bank loan, women business owners in the retail trade must pledge four times the collateral that men do, and are subjected to more severe tax scrutiny than their male counterparts, including requests for informal payments to tax inspectors (Sahovic, Gimelli and Cicanci, 2018^[16]).

SME skills

Since the 2016 assessment, good efforts have been made by ODIMM to ensure a better fit between business training needs and training provision. However, significant challenges remain as to how the public education system can respond to the skills demands of businesses. With some 46% of businesses having difficulty in engaging staff with the skills required, and a third of employers considering skill gaps and mismatches as a significant constraint on business, the business community is 'extraordinarily critical' of the workforce skills base (Hoftijzer and Kheyfets, 2018^[17]). Despite the importance afforded to education within the country's national development strategy – Moldova 2020 – more efforts are necessary to ensure that both vocational and higher education are more responsive to the evolving economy. In particular, while reforms to vocational education are ongoing, significant structural reforms across the higher education system are paramount to Moldova's wider drive for innovation, productivity and growth (Gamberoni and Newfarmer, 2019^[18]).

The assessment highlighted a range of services offered by ODIMM including start-up training, a network of 11 incubators in operation, loan guarantees, and dedicated training and financing support for young people. Since the last assessment, a 'Start for Youth' programme has been launched to support young entrepreneurs, with 970 young people registering in 2018.

Wider training services for businesses include 1) "Efficient Business Management", comprising core areas like strategic business planning and online marketing, with take-up by approximately 2,500 entrepreneurs; and 2) mentoring services provided by the Business Consultancy and Business Support Centre (CCAA). Further, since the last assessment Moldova has re-launched its virtual platform providing SMEs with access to key business-support information, including training availability (www.businessportal.md).

A particular innovation is the dedicated effort to engage the Moldovan diaspora through the PARE 1+1 Programme, which supports back-home microenterprise developments, which is good practice. The programme mobilises remittance inflows to support business creation, backed up with training. Given their potential to bring value to the economy and job creation, more effort is needed to support training for growth-oriented businesses, which suffer from skills shortages, including training for businesses with potential to trade internationally. Meanwhile, training addressing environmental risk management provided by ODIMM, and more specialist courses on energy conservation by the National Agency for Energy Efficiency, reflect growing awareness for environmental protection.

Good efforts, mostly donor-supported, are being made to promote digital skills within SMEs. Meanwhile, a first analysis has been undertaken on smart specialisation. This identified sector priority areas in Chisinau and outlying regions, as well as innovation potential (including presence of vocational and higher education institutions), including clusters (e.g. business services) and emerging (e.g. creative industries).

Finally, while monitoring of SME training is well established for government-supported programmes, a more system-based approach to evaluation of training programmes is required.

Structured cooperation, joint analysis of skills (weaknesses, gaps and future perspectives) and forward planning, involving sector associations and the vocational and higher education communities is required. This should build on on-going skills anticipation work of sector committees.

More developed focus on training (regulatory, vocational and managerial) for SMEs in priority sectors with growth and export potential.

Given its capacity, consideration could be given to engaging the National Institute for Economic Research as a partner body to the economy ministry and ODIMM to both monitor and evaluate government-supported training programmes.

Pillar C – Access to finance

Moldova has taken certain steps to facilitate SMEs' access to finance. Notable policies include an expansion of the registration system for movable assets, which has improved the ecosystem for registering collateral. The consolidation of the banking sector has shown palpable results, with international investors returning to the country along with the first signs of credit growth recovery. Support for SME finance is heavily donor-dependant, though the expansion of the Credit Guarantee Fund is a positive step in mitigating the perceived risks of SME lending. A 2018 law on non-bank financial institutions is a positive step in diversifying sources of financing for SMEs, though available statistics show limited market penetration of these instruments.

Legal and regulatory framework

Moldova has in place a well-established legal framework on secured transactions, with creditor protection broadly in line with international best practices. Despite these legal safety nets, however, Moldovan insolvency proceedings are prone to long procedures and relatively high costs, and recovery rates are low (World Bank, 2019^[6]). With regard to the options available for SMEs to leverage their assets to raise financing, the existing cadastre (fully available online and free for all users) has been complemented with an expanded registration system for movable assets. Widely accepted by banks as collateral, the ability to register movable assets online significantly helps SMEs with limited immovable assets to access financing. This is particularly pertinent in light of heavy reliance on collateral by banks and the very limited coverage of the existing private credit information bureaus – drawing information only from financial institutions, their coverage may have almost doubled since the 2016 assessment, though it still covers only 16% of the adult population.

Banking regulations and oversight have received significant attention in recent years in the context of an International Monetary Fund-led review following the 2014 banking crisis. Reforms introduced in 2018 have continued the implementation of Basel III requirements (to be completed by 2023). While these standards are uniformly applied across institutions, there are exceptions for SME lending.

A further risk disproportionately affecting SMEs is loans in foreign currencies. As of 2015, mandatory disclosure regulation has forced lenders to inform borrowers of the additional risks associated with these loans. At the same time, only internationally exposed SMEs are legally able to access foreign currency loans, limiting potential demand from borrowers simply lured by the lower interest rates (typically about half those offered for local-

currency loans). However, in the absence of a large-scale mechanism to encourage or facilitate local currency lending, the likelihood of SMEs taking on disproportionate foreign-exchange risks continues to exist.

The local stock exchange, while operational and centrally regulated, does not represent a feasible source of financing for local businesses, given heavily fluctuating trading levels and the absence of an operational separate market for SMEs.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

Banks represent the primary source of financing for local SMEs in Moldova. This segment was therefore particularly affected by the sector crisis of 2014-15, as reflected by four subsequent years of decreasing domestic credit provided to the private sector (from 35.7% of GDP in 2013 to 22.8% in 2017) (World Bank, 2018^[19]). Positive credit growth returned in 2018 in a first sign of recovery, though this has been led primarily by consumer and mortgage lending. However, the sector does show signs of consolidation, revitalisation and stabilisation, as well as international investor interest.

SME support programmes are offered through virtually every major bank, though they tend to be both donor-funded and targeting a very specific segment or use. Government support schemes also include interest rate subsidies, which are generally considered to be a less sustainable mechanism. A positive development since the last assessment is the 2018 expansion of the Credit Guarantee Fund, both in monetary terms and in terms of its design and offerings; improved monitoring and evaluation of the Fund should aid in improving the scheme where most needed, while complementary assistance and training services aim to create a holistic support programme for SMEs previously considered less bankable. Information on both public and private sector support measures is available on a central, donor-funded web portal,⁷ providing information on the ecosystem of financing and support mechanisms available to the various SME segments.

In the sphere of non-bank financing, a notable improvement has been the 2018 law on “non-bank credit institutions”, which brings various forms of alternative finance under one regulatory umbrella. For example, leasing regulations have been strengthened and all oversight consolidated under the National Commission for Financial Markets. Due to a lack of up-to-date and methodologically consistent statistics, it is difficult to judge the uptake of this financing mechanism, though the existing data suggests an increase.⁸

Microfinance institutions have a long tradition in Moldova, which has a continuously growing number of MFIs and a largely self-sustaining industry. The increase in MFIs has been accompanied by a 15-20% annual growth in loan volume, though the vast majority of loans (83%) continue to go to individuals, with business entities accounting for a combined EUR ~39 million in total annual volume. While substantive improvements have been made, this shows that microfinancing still has a very long way to go to be considered a realistic alternative source of finance for a large segment of SMEs.

In the field of factoring, dedicated regulation is in place, though it could be further improved through the inclusion of additional elements, such as provisions for electronic factoring. Additionally, no statistics are available to assess market penetration of this instrument.

Lastly, plans to introduce a dedicated legal framework for venture capital have existed for years, but they have yet to materialise. Since 2015, a draft law taking into account existing

EU regulations has essentially been dormant – although, in an encouraging sign, it is currently under review.

Financial literacy

In what constitutes a very positive step forward, the government in 2018 carried out a survey on the general public's levels of financial literacy. While it did not include a focus on existing enterprises, it should nonetheless provide a good baseline around which to determine policy needs. Consequently, the roadmap currently under discussion on developing the general population's financial literacy would provide a framework for centrally co-ordinating various support programmes. This would go a long way in alleviating the currently disparate approach of ad hoc training without centralised planning and evaluations. Specific training courses in financial literacy for existing entrepreneurs (including information on financing) are currently organised by ODIMM and are widely advertised online and offline. The current initiatives provide an excellent opportunity to bring this existing infrastructure under a central umbrella with dedicated co-ordination, monitoring and evaluation, allowing for truly evidence-based and targeted policy making.

Pillar D – Access to markets

Public procurement

Public procurement in Moldova is regulated by the public procurement law (PPL) adopted on 3 July 2015 and in force since 1 May 2016, with some subsequent amendments. While it was drafted to reflect the EU's public procurement directives of 2004, Moldova's Association Agreement with the EU now requires further amendments in order to conform with the 2014 directives, which add new provisions for facilitating SME participation in public procurement. The same objective is also covered in the SME Development Strategy 2012-2020, e.g. through corresponding training.

The main policy-making institution in the field of public procurement is the Ministry of Finance, with the Public Procurement Agency, subordinated to the Ministry,⁹ in charge of policy implementation. Review of complaints is handled, free of charge, by the National Agency for Settlement of Complaints, reporting to the Parliament of Moldova.

The PPL prohibits discriminatory qualification or award criteria and requires them to be proportionate to the nature and value of the procurement. With specific reference to the interests of SMEs, the PPL allows contracting authorities to divide contracts into lots and obliges them to explain the reasons if this is not done. The PPL also allows the use of declarations of conformity with qualification requirements at the time of tendering. Although not specifically aimed at SMEs, explicit provisions in the PPL for preliminary market consultations give them opportunities to learn about business opportunities and present their possibilities and limitations as potential tenderers; measures are envisaged for improving contracting authorities' knowledge of what SMEs can offer. However, a lack of updated secondary legislation, standard documents and guidelines mean that many of the mentioned provisions in the PPL are not yet effective.

The use of simplified procedures or direct agreement is possible in certain, defined circumstances. Small-value contracts are not covered by the PPL, with the threshold for this raised from MDL 80 000 to 200 000, and data on such procurement is not readily available. In principle, notices and tender documents are available free of charge on a single public procurement website.¹⁰ However, gaps may occur in the publication of notices and effective access to the information is limited (e.g. by the use of .pdf files with no search

possibilities). Although no specific data are available, these factors seem to limit the openness and competitiveness of the public procurement market for SMEs. A new e-procurement system is in operation but is suffering from various shortcomings.

While recognising the developments since 2016 as set out above and the current plans for further improvements, the following reform needs with respect to SMEs can be highlighted:

- updating of secondary legislation, standard documents and guidelines to fully match the PPL;
- appropriate regulation and increased transparency of small value procurement;
- enhanced training for contracting authorities and SMEs in their respective roles in the full public procurement cycle;
- enhancement of e-procurement to bring it in line with EU requirements and good practice; and
- enhanced generation and analysis of public procurement data, in particular by wider and more efficient use of e-procurement.

Standards and technical regulations

Moldova's Association Agreement with the EU implies approximation with the relevant EU quality infrastructure framework – including EU standards, technical regulations and conformity assessment procedures – to reduce technical barriers to trade. This process equally entails withdrawing conflicting national standards, in particular Soviet-era GOST standards developed before 1992, from the corpus of national standards.¹¹

Major progress since 2016 has taken place in the areas of standardization, accreditation, conformity assessment and metrology. Moldova's legislative and institutional framework, which was reformed during the EU AA/DCFTA negotiations, is operational and now needs regular evaluation to allow for policy refinement and institutional learning. In terms of standardisation, Moldova has adopted about 24 500 European standards and expects full completion of the harmonisation by the end of 2019, which is an outstanding performance among EaP countries; when the harmonisation is complete, SMEs will benefit from a presumption of conformity when exporting to the EU. In addition, about 7 000 conflicting standards from the GOST system have been withdrawn. The Institute for Standardisation is a companion standardisation body member of CEN and CENELEC, and an observing member of ETSI. The Institute for Standardisation has adopted a series of best practices (e.g. a new communication strategy, an online standard search catalogue, a hotline) and cooperates with the national SME agency (ODIMM) to encourage take-up of such tools.

Regarding accreditation, the National Accreditation Centre of the Republic of Moldova (MOLDAC) was recognized as an associate member of European co-operation for Accreditation (EA), a signatory of the EA Bilateral Agreement (BLA) in October 2017, and a signatory of an International Accreditation Forum (IAF) Multilateral Recognition Arrangement (MRA) in February 2019. This should increase international trust towards and reduce costs for conformity assessment of Moldovan SMEs. Moreover, Moldova has aligned its metrology legislation with the EU *acquis* since the last assessment in 2016.¹² The National Institute of Metrology participates in comparisons organized by the International Committee for Measurements and Weights (CIPM) and became an associate member of the European Organization for Legal Metrology Cooperation (WELMEC) in 2017 and a full member of the European Association of National Metrology Institutes (EURAMET) in 2019.

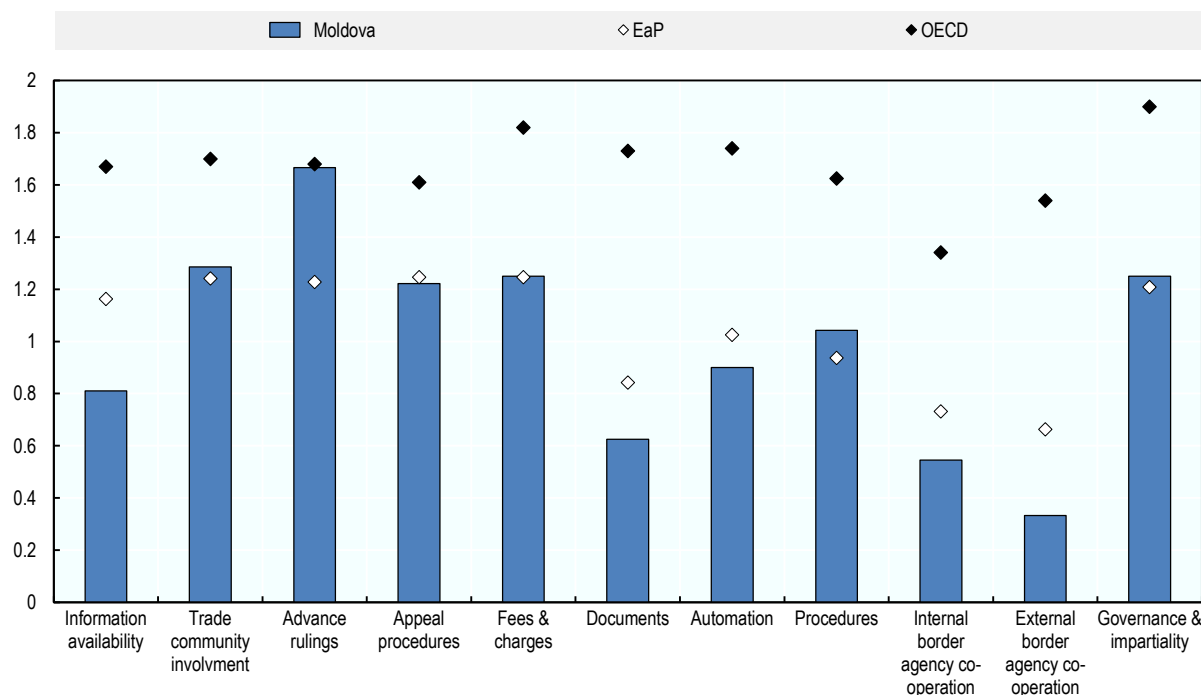
Moldova has made substantial progress towards approximation with the EU Single Market rules over the last three years. Moldova's future challenge is to further develop, based on regular evaluation and feedback from SMEs and civil society, the new quality infrastructure system to ensure that business opportunities generated through the EU AA/DCFTA, and EA BLA (and potentially an EU ACAA) actually materialise. For this purpose, the Ministry of Economy and Infrastructure should expand its existing efforts to help SMEs incorporate EU standards into their business operations and access international markets, e.g. through deepening the co-operation with ODIMM, the Moldovan Investment Agency. Given the complexity of market surveillance, and taking into account the transition from an ex-ante to a mostly ex-post system of market surveillance of products, Moldova should continue to engage in knowledge exchange and capacity building with other regional and international market surveillance authorities.

SME internationalisation

Since signing the AA (including a DCFTA) with the European Union in 2014, Moldova's exports have increased by 15% and currently 70% of Moldova's export goes to the EU markets. However, available data and interviews with the private sector suggest that Moldovan SMEs have not fully exploited the opportunities arising from these agreements. In particular, concerns about food safety and quality of animal-origin food production, prevents Moldovan producers from accessing the EU market. Moreover, sanctions imposed by the Russian Federation in 2014 have had a negative impact on the internationalisation of Moldovan SMEs.

According to the 2020 World Bank *Doing Business* report, Moldova ranks 38th on trading across borders, up from 152nd in 2015 (World Bank, 2019_[6]). According to the 2017 OECD Trade Facilitation Indicators, Moldova performs slightly below the EaP regional average, and moving forward could focus on improving information availability related to trade regulations and increasing the involvement of the trade community (OECD, 2017_[20]). Moldova's relatively modest performance in the TFIs, newly added in the scoring of the SME internationalisation dimension, contributes to the drop of the score respect to the previous assessment.

Figure 11.6. OECD Trade Facilitation Indicators for Moldova, 2017



Note: TFIs take values from 0 to 2, where 2 designates the best performance that can be achieved.

Source: OECD, Trade Facilitation Indicators Database, <https://oe.cd/tfi>.

StatLink  <http://dx.doi.org/10.1787/888934087724>

The SME Development Strategy 2012-2020 and the Investment Attraction and Export Promotion Strategy 2016-2020 are the main strategic documents guiding policy developments in the area of SME internationalisation in Moldova. The recently restructured Moldovan Investment Agency (formerly MIEPO) is responsible for a wide range of export support services, but its activities have been mostly limited to supporting the participation of Moldovan companies in international trade fairs. Despite its broad mandate, limited capacity and staffing have prevented the agency from expanding its range of services to encompass more-complex advisory services for exporting SMEs, such as training, market intelligence and consultancy services. ODIMM, with the help of the Enterprise Europe Network, currently provides informational advice for SMEs that are interested in exporting, and the Ready to Trade project (financed by the EU and implemented by the ITC) seeks to improve the international competitiveness of SMEs in the apparel sector. Overall, evidence suggests that SMEs are lacking comprehensive forms of support intended to deal with challenges associated with access to foreign markets. However, there is a plan to launch a comprehensive export-readiness training programme in early 2020. Moving forward, Moldova could ensure that the Moldovan Investment Agency has sufficient capacity to implement its targets and help operationalise the export readiness support programme by ODIMM. It is important to ensure that institutional responsibilities of the two agencies, MIA and ODIMM, are well defined and complementary to one another.

In general, there is a lack of systematic effort to better integrate local SMEs into global value chains. Nonetheless, in 2018, ODIMM, with the help of the Technical Assistance and Information Exchange (TAIEX) instrument of the European Commission, launched two

clusters focusing on the textile and creative sectors. In co-operation with the OECD, the agency is currently designing a pilot programme to stimulate the creation of supply chain linkages between local food producers and food retail chains operating in Moldova.

With regard to SME access to trade finance, there is no specific programme providing financial support for exporting SMEs, with the exception of the Women in Business programme implemented by ODIMM. There is also a limited provision of support programmes promoting SME access to e-commerce.

Pillar E – Innovation and Business Support

Business Development Services

The Government of Moldova has a well-defined vision of business development services (BDS) that is integrated into the relevant policy planning framework and documents, such as the SME Development Strategy 2012-2020 and the corresponding Action Plan 2018-2020.

ODIMM is the main institution in charge of developing and implementing SME support programmes and projects according to the action plan. The various programmes – which target a wide range of beneficiaries including women, young entrepreneurs and rural start-ups – consist of training and mentorship, tools for improving access to finance, and BDS infrastructure (11 business incubators with 180 residents in 2017). However, no study on supply and demand of BDS or SME skills has been carried out in recent years, which would offer insights for a more targeted delivery of support services to enterprises.

General information on business development, financial support and specialised BDS programmes is disseminated through two ODIMM online portals (<https://businessportal.md> and <https://odimm.md>), which now include a list of private BDS providers and the option to rate the services received. While general information and advice are provided by ODIMM's staff, training is carried out via subcontracted private providers and is currently free of charge.

Box 11.1. The Organisation for Small and Medium Enterprises Sector Development (ODIMM)

The Organisation for Small and Medium Enterprises Sector Development (ODIMM) is a public institution acting as an executive agency in charge of the implementation of programs and projects for the development of the SME sector in the Republic of Moldova. Established in 2007, ODIMM operates under the supervision of the Ministry of Economy and Infrastructure and currently has 52 fulltime employees.

By providing information, business support services, incentives and financing opportunities to potential and existing SMEs, ODIMM is the leading agency in promoting and sustaining entrepreneurship and SMEs competitiveness in Moldova. ODIMM also maintains the network of 11 business incubators currently operating in country. It administrates seven state programs and a State Credit Guarantee Fund (FGC). Until now, ODIMM trained more than 25 000 potential and existing entrepreneurs, offered more than 2 000 grants, which generating more than EUR 66 million investments, and guaranteed about 380 credits, which facilitated business loans amounting to EUR 21 million.

ODIMM co-operates with a number of international organisations on design and delivery of its services and it acts as the national contact point of the Enterprise Europe Network. It closely collaborates with the Moldovan Investment Agency (MIA), the Chamber of Commerce and Industry (CCI), the National Agency for Research and Development (NARD), regional development agencies, and business-related non-governmental organisations and associations.

Source: ODIMM, <https://www.odimm.md/en/>; <https://businessportal.md/>; IOM, <http://www.iom.md/organization-small-and-medium-enterprises-sector-development-odimm>.

Several programmes, such as *Women in Business* or *Moldova start-up*, now include a co-financing component to spur demand for private consultancy services, with ODIMM covering up to one-third of the consultancy cost. This co-financing mechanism could be further expanded to other support programmes. In addition, quality certification programmes for private providers should be envisaged so that SMEs can access reliable information about BDS providers and select them accordingly.

While there is no independent impact evaluation of government-provided BDS, there are annual reports on strategy implementation published by the Ministry of Economy and Infrastructure as well as monitoring and evaluation results presented in ODIMM's annual activity reports. ODIMM publishes data on SME participation in BDS programmes, as well as on their perception of available programmes. Monitoring could be further improved by complementing basic implementation indicators (number of training events conducted, budget spent, materials distributed) with key performance indicators to better capture programme impact on SME performance.

Innovation policy

Moldova's Innovation Strategy for 2013-2020 ("Innovation for Competitiveness") continues to be rolled out, with the three-fold objective of facilitating technological development of enterprises, building the infrastructure for innovation, and creating the conditions for a knowledge-based economy. Elements of innovation policy are also present in other government strategies, such as the SME Development Strategy 2012-2020 and the

National Strategy for Investment Attraction and Promotion 2016-2020. These documents contribute to a rather well-developed policy framework for innovation – a framework that nonetheless could be further enhanced by 1) including specific targets for innovation in the SME sector and 2) introducing reporting mechanisms to evaluate economic impact beyond implementation of action plans.

The establishment of the National Agency for Research and Development (NARD) is an important development to the institutional setting for innovation since the latest SBA assessment. NARD is the successor of three previously existing bodies implementing state policy in the fields of science, innovation and technology transfer. Among its responsibilities, the Agency should manage national funds for innovation, increase public knowledge of R&D and scientific resources, and develop the activity of the innovation infrastructure. With regard to the latter, a 2018 “Law on Scientific-Technological parks and Innovation Incubators” brings clarity to their objectives, technical requirements and criteria for selecting resident companies. As of early 2019, one scientific-technological park and eight innovation incubators are present in Moldova.

The Government of Moldova offers grants and tax incentives to SMEs to support innovative projects. The most relevant programme is managed by NARD and provides grants for technology transfer projects. These grants require some co-financing from the beneficiaries and are awarded through a competitive selection process that takes into account the degree of innovation of the project, its potential impact and the recipients’ capability to implement it. The reach of this programme, however, remains limited: only eight SMEs received funding in 2017 (Ministry of Economy and Infrastructure, 2018^[21]). To complement this, the government has introduced VAT and tax exemptions for investment in R&D, which amounted to just below EUR 4 million for 2017.

Lastly, Moldova performs relatively well with regard to the policy framework for non-technological innovation and diffusion of innovation. Both organisational and marketing innovations are recognised in the national strategy as part of the objective of building a more competitive economy, and thematic workshops are periodically organised by ODIMM and NARD to raise awareness and increase entrepreneurs’ capacity to manage innovation in SMEs.¹³ Furthermore, demand-side policies also play a role in Moldova’s innovation ecosystem. Among them, the recent law on public procurement¹⁴ introduces the concept of “innovation partnerships”, whereby contracting authorities effectively create incentives to invest in innovation by committing to acquire a good or service that is not yet available in the market.

Moving forward, Moldova could 1) further improve its policy framework by setting specific targets for the SME sector in the national strategy for innovation, and 2) improve its monitoring system by introducing reporting mechanisms designed to evaluate economic impact beyond the simple implementation of action plans for NARD and the national strategy.

Green economy

Moldova has made strides in implementing a clear plan for supporting the greening of SMEs. The Green Economy Promotion Program for 2018-2020 includes the target of providing adequate support to SMEs so that 30% will have implemented green economy principles by 2020, including resource efficiency and cleaner production techniques. This is in line with the “Moldova 2030” National Development Strategy, which links green growth and SMEs to the Agenda 2030 Sustainable Development Goals; and with the

Strategy for SME Development 2012-2020, which includes linking SMEs to the green economy as one of its eight priorities.

However, it is not clear how these ambitious high-level goals will be translated into implementable policies. To ensure that this ambitious target of 30% of SMEs is met, the government needs to clearly define what constitutes adopting green economy principles, and how it will be measured.

Another promising development is the plan to implement sustainable public procurement. Moldova has set the goal of at least 15% of total public procurement being “sustainable” by 2020. Public procurement can be a powerful tool for sending market signals and helping make the business case for greening. However, clearly defined qualifications for what constitutes “sustainable” need to be in place, and SMEs need to be made aware of the opportunity and supplied with the tools necessary to meet the qualifications.

Sectoral analysis: SME perspectives on the agribusiness sector in Moldova

Agriculture and the food-processing sectors are the historical pillars of Moldova’s economy. Agriculture accounts for 12% of GDP and more than 30% of total employment. The food-processing sector, at 37% of the value of manufactured production and 26% of the manufacturing employment, is the largest contributor to Moldova’s industrial activity.

The structure of the food production is led by the processing and preserving of meat products (24% of value added), then equitably distributed between fruit and vegetables, fish and seafood products, and vegetable and animal oils and fats preparation (15-16% of value added). In 2017, 949 firms operated in the sector, among which 96 were large or medium-sized companies, accounting for 78% of total employment in the sector.

Evidence collected during private-sector focus group meetings and interviews with selected food processors, businesses associations and food retailers provides some insights into the main constraints faced by the companies operating in the sector:

- *Lack of skilled labour* is the most pressing issue for most producers. Mass emigration of the active and qualified population, combined with an education system that does not match market needs, has resulted in a labour shortage in the sector. Despite these limitations, few enterprises take advantage of dual education opportunities to train their staff.
- *Limited access to finance* prevents small producers from modernising their equipment and upgrading processing and packaging practices. As a result, limited innovation activity curtails the competitiveness of local SMEs, which are losing their traditionally strong positions in domestic and foreign markets.
- Low domestic demand and *problematic access to foreign markets* limit growth opportunities. Trade bans on fruit, canned products, and fresh and processed meat imposed by the Russian Federation in 2014, coupled with restrictions on the export of products of animal origin to the EU, prevent local producers from scaling up.

Given the aforementioned challenges, the government could consider the following next steps:

- Besides horizontal policies to improve the overall investment climate, Moldova could consider introducing targeted support programmes (or expanding existing ones) to stimulate the development of the food-processing sector. For example,

strengthening the vocational training system could help tackle the limited supply of skilled labour.

- Further progress in the implementation of AA/DCFTA provisions related to the export of products of animal origin, in addition to targeted support to enhance linkages between food producers and retailers, could expand market opportunities for SMEs.
- Further efforts to enhance the ability of food producers to obtain external financing could stimulate innovation and increase the competitiveness of the food-processing sector.

The way forward

Since 2016, the Republic of Moldova has made moderate progress in further developing a conducive business environment for SMEs. The following measures could be considered by the government to further strengthen the system:

- To ensure a level playing field for all firms, Moldova could step up its efforts in the areas of competition, contract enforcement and business integrity. Thus, Moldova could continue on its promising course to promote competition in the economy and seek to improve and refine the instruments used, paying special attention to institutional independence and improved capacities. In this regard, the CC's budget should be extended to enable the CC to attract and retain highly qualified staff. In addition, the CC's activities in the areas of market studies and competition assessment could benefit from the use of OECD expertise on market studies, and the OECD's Competition Assessment Toolkit, to bring the practices fully in line with best international practice. In order to provide for efficient contract enforcement, Moldova could accelerate the use of court automation, ensure proper qualification of judges treating IP disputes, and promote ADR use by SMEs for commercial dispute settlement. Furthermore, making the study of business integrity risks an inherent part of its anti-corruption policy, putting in place a mechanism to verify the validity of provided information on beneficial ownership, and ensuring proper enforcement of the criminal liability of legal person for corruption would all be important steps towards prevention of corruption in the private sector. In addition, the government should consider promoting business integrity principles within SMEs and introducing meaningful incentives to encourage SMEs to adopt integrity mechanisms.
- As part of its efforts to build a better institutional and regulatory framework, the government should enhance the monitoring and evaluation mechanisms in co-operation with ODIMM, in order to evaluate the impact of the actions planned in the SME strategy. Moldova should also ensure that the RIA methodology, whose mandatory application is stipulated in the 2017 Normative act, is systematically applied throughout the public administration. The country has made significant progress in the provision of e-government services, and the government should maintain this momentum by extending them even more and by introducing measures to upgrade the IT skills of small entrepreneurs. Moreover, company registration should be facilitated by making it possible to complete the whole procedure online, and the impact of the new simplified tax regime for sole proprietors and small companies should be assessed to ensure that SME growth is not discouraged. The insolvency framework and the policies for the prevention of

bankruptcy and promotion of second chance are not sufficiently aligned and proactive, and a proper early-warning system could be implemented.

- As regards the way forward for the area of entrepreneurial human capital, in *entrepreneurial learning*, the European Entrepreneurship Competence Framework should be a key reference in the 2019-2020 curriculum reform plans of the education ministry with specific consideration given to implications for teacher training. A Moldovan ‘EntreComp’ action plan could be considered. Secondly, the economy and education ministries should jointly call a meeting with the rectors of Moldova’s 31 higher education institutions. The objective should be to determine how the higher education community could approach across campus entrepreneurship developments (beyond careers guidance centres and incubators).

For *women’s entrepreneurship*, in terms of institutional efficiency and coherence with wider SME developments, consideration could be given to transferring the mandate of the National Council for Women’s Entrepreneurship to a dedicated commission of the SME Council. Meanwhile, given the high levels of poverty in rural areas, particular attention should be given to supporting women’s micro-entrepreneurship, with training and finance support schemes built into local and regional development plans. The elaboration and dissemination of an annual report on women’s entrepreneurship should also be considered. This would allow, *inter alia*, for reporting on results against objectives and targets on women’s entrepreneurship established within the SME Action Plan (2018-2020) and other instruments.

In the area of *SME skills*, more structured cooperation between stakeholders involved in SME skills development will be important, including collective analysis of skills (weaknesses, gaps and future perspectives) and forward planning. This should involve sector associations and the vocational and higher education communities and build on on-going the skills anticipation work of sector committees. Secondly, a more developed focus on training (regulatory, vocational and managerial) for SMEs in priority sectors with growth and export potential should be considered. Finally, given its capacity, consideration could be given to engaging the National Institute for Economic Research as a partner body to the economy ministry and ODIMM to both monitor and evaluate government-supported training programmes.

- As regards the promotion of SME participation in public procurement, both contracting authorities and SMEs could benefit from targeted training aimed at raising their status and skill. The e-procurement system should be enhanced and the generation and analysis of data on SME participation in public procurement should be improved. Moldova has made substantial progress towards approximation with the EU Single Market and a future challenge consists in further developing the new quality infrastructure system. SMEs should be provided with further assistance in incorporating EU standards into their business operations and accessing international markets. Finally, Moldova should continue to engage in knowledge exchange and capacity building with other regional and international market surveillance authorities. In order to stimulate SME internationalisation, Moldova should increase the capacity of the Moldovan Investment Agency (to ensure it is adequately resourced to implement its targets) and continue its efforts to integrate local SMEs into global value chains and provide financial support for exporting SMEs.

- The government should further develop the monitoring and evaluation of the current support programmes offered by ODIMM, to measure their impact on SME performance. At the same time, it should perform regular research on supply and demand of BDS in order to better meet SMEs' needs. In addition, it is important for Moldova to further expand the existing co-financing mechanism to other support programmes. To improve efforts to support SME innovation, the policy framework should be further upgraded to include specific targets about the SME sector in the national strategy for innovation. Moreover, the monitoring system should be enhanced by introducing reporting mechanisms to evaluating economic impact beyond the simple implementation of action plans for NARD and the national strategy. Despite the progress achieved by Moldova in implementing a clear plan for supporting the greening of SMEs, it is important to match the plan's ambitious goals with clearly measurable indicators and targets, to ensure that the targets are met. Finally, it is necessary to provide SMEs with clear information and direct support to ensure that they can benefit from the planned implementation of green public procurement policies.

Conclusion

Table 11.5. Roadmap for policy reforms – Moldova

Promoting a level playing field for all enterprises
<ul style="list-style-type: none"> • Strengthen the CC by providing an adequate budget to attract highly qualified staff, and by improving its economic and IT capacities • Improve the CC's ability to conduct competition assessments and market studies and follow the recommendations of the CC • Develop a risk-based business integrity policy in close co-operation with business associations • Promote business integrity practices through awareness-raising activities and by supporting the compliance initiatives of business associations • Promote ADR through awareness-raising campaigns and incentives for SME use
Strengthening the institutional and operation framework environment
<ul style="list-style-type: none"> • Upgrade monitoring and evaluation mechanisms, in co-operation with ODIMM • Make sure that the new RIA methodology introduced in 2016 is systematically applied throughout the public administration and that RIA is performed according to what stipulated in the 2017 Normative act • Introduce measures to upgrade the IT skills of small entrepreneurs, in parallel with the extension of the range of e-government services, in order to ensure the optimal utilisation of the e-government service platforms. Conduct regular surveys of user satisfaction • Upgrade procedures for online registration, so that the entire registration process can be completed online • Implement a proper early-warning system and insolvency prevention training for entrepreneurs • Adopt a comprehensive and proactive second chance strategy for bankrupt entrepreneurs
Promoting skills and entrepreneurship development
<ul style="list-style-type: none"> • Ensure that the European Entrepreneurship Competence Framework features in the 2019-2020 curriculum reform plans, backed up with pre-service and in-service teacher training. • Improve cross-ministry co-operation to reinforce micro-entrepreneurship for women, including increased options for mentoring and microfinance support • Further support smart specialisation and vocational education
Facilitating SME access to finance
<ul style="list-style-type: none"> • Expand the sources of information of the credit bureaus beyond banks to include utilities and other service providers. • Review existing governmental SME support mechanisms, focussing on the more sustainable approaches (such as the recently expanded Credit Guarantee Fund), employing stringent data capturing, monitoring and evaluation to adjust the programmes as and when needed. • Pass the draft law regulating venture capital that has been dormant in the legislative process since 2015
Supporting SME access to markets
<ul style="list-style-type: none"> • Increase the capacity of the Moldovan Investment Agency to deliver export promotion services • Introduce support programmes to enhance the export readiness of SMEs and the creation of SME-FDI linkages and ensure appropriate capacity in ODIMM to implement such programmes

- Set up a monitoring and impact evaluation system along with measures to incentivise and support SMEs/businesses to implement EU standards, including conformity assessment services to demonstrate compliance with the former
- Implement targeted measure in the field of technical regulation, including mobility subsidies for travel to TC unions, online courses for SMEs on how to read, understand and implement standards and translation of standards in priority sectors/products for external trade
- Monitor what actually happens in the public procurement system, in particular with respect to SMEs, and build the capacity of contracting authorities to apply good public procurement principles and practices

Enhancing SME competitiveness

- Further improve the policy framework by including specific targets for the SME sector in the national strategy for innovation
- Enhance the monitoring system by introducing reporting mechanisms to evaluating economic impact beyond the simple implementation of action plans for NARD and the national strategy
- Expand the existing co-financing mechanism for SME use of BDS in the framework of government support programmes; consider quality certification programmes for private providers
- Improve monitoring and evaluation of current support programmes, measuring the impact of BDS on SME performance
- Match high-level goals for greening SMEs with clearly measurable indicators and targets and actionable policies to translate goals into action
- Provide SMEs with clear information and direct support to ensure that they can benefit from the planned implementation of green public procurement policies

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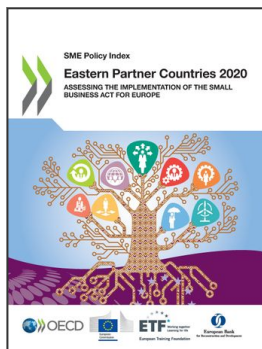
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Notes

- ¹ https://www.ilo.org/budapest/information-resources/press-releases/WCMS_442102/lang--en/index.htm -
- ² <https://www.oecd.org/competition/assessment-toolkit.htm>.
- ³ <https://www.oecd.org/competition/guidelinesforfightingbidrigginginpublicprocurement.htm>.
- ⁴ Reduced court fees for parties engaged in mediation, possibility of referral to mediation with all parties' consent, ADR clauses in commercial contracts.
- ⁵ National Anti-Corruption Strategy 2011-2016.
- ⁶ See <https://www.bsigroup.com/en-GB/iso-37001-anti-bribery>.
- ⁷ <https://businessportal.md>.
- ⁸ Leasing statistics are not fully comparable over the years as they only capture about 83% of the market. These existing numbers show a 35% increase in leasing between 2015 and 2017, though almost entirely driven by leasing of "transport means" (93% of leasing volume).
- ⁹ See <http://mf.gov.md/en/content/public-procurement> and <https://tender.gov.md>.
- ¹⁰ <https://mtender.gov.md>.
- ¹¹ Note that this does not involve prohibiting Moldovan businesses, in particular those that trade with EAEU member states, from using GOST or other standards. The application of standards is voluntary and based upon businesses' own decisions.
- ¹² Law No. 7/2016, including amendments in June 2018 (Law No. 79/2018).
- ¹³ See for instance the "Business-INN-Moldova" project, which is part of the Horizon 2020 Program: <http://amp.gov.md/aim/exportActToPDF.do?activityid=9915>.
- ¹⁴ Law on Public Procurement No. 131, 3 July 2015.



From:
SME Policy Index: Eastern Partner Countries 2020
Assessing the Implementation of the Small Business Act for Europe

Access the complete publication at:
<https://doi.org/10.1787/8b45614b-en>

Please cite this chapter as:

OECD, *et al.* (2020), “Republic of Moldova: Small Business Act country profile”, in *SME Policy Index: Eastern Partner Countries 2020: Assessing the Implementation of the Small Business Act for Europe*, OECD Publishing, Paris/European Union, Brussels.

DOI: <https://doi.org/10.1787/d1afa5b8-en>

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