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FOSTERING SME DEVELOPMENT IN THE REPUBLIC OF MOLDOVA:

ACCESS TO FINANCE

March 2014

FOREWORD

Small and medium-sized enterprises (SMEs) are the backbone of the economy in the Republic of Moldova and have significantly contributed to job creation and economic prosperity over the last decade. SMEs accounted for over 95% of all businesses and provided around 60% of the country's employment in 2011. SMEs were particularly impacted by the global financial crisis which diminished international capital flows, bank lending, foreign direct investment, and consumer demand.

With the crisis fading into the background, the Moldovan economic recovery will depend on the government's ability to promote the growth of SMEs. On the one hand, policy makers must focus on encouraging the growth of micro-companies, as they make up 70% of SMEs in the Republic of Moldova and play an important role in increasing inclusiveness. On the other hand, they should continue supporting the competitiveness of relatively larger SMEs.

To assist the Moldovan government in the design and implementation of SME policies, the OECD Investment Compact for South East Europe implemented a 3.5 year project called "Supporting Small and Medium Sized Enterprises' Policy in the Republic of Moldova" with the financial support of the Government of the Netherlands.

The project was structured around three phases. First, the OECD conducted an in-depth SME policy review and developed a set of policy recommendations and priorities for SME policy reform. This analysis resulted in the publication of a report entitled *Fostering SME Development in the Republic of Moldova*. In the second phase the OECD supported the Moldovan government in the elaboration of the national *SME Development Strategy 2012-2020* and in conducting extensive consultations with the SME stakeholders. This strategy was endorsed by the former Deputy Prime Minister Lazar in October 2012. In the third phase of the project the OECD assisted the Moldovan government in implementing the policy priorities resulting from the SME strategy. It conducted two studies, one on developing the business support infrastructure and this one on enhancing access to finance for SMEs. It also developed project fiches to assist the Moldovan government in its effort to gain technical assistance from international donors.

This report was submitted for peer review at the OECD Eurasia Competitiveness Roundtable session on "Business Development Services in the Republic of Moldova", held at the OECD Headquarters in Paris on 4 December 2013. The Roundtable is a platform for peer review and knowledge sharing on reforms aiming to enhance regional and national competitiveness. It serves as a policy network bringing OECD and Eurasian countries together with international and regional partner organisations to carry out country peer reviews of competitiveness reforms, exchange good practice, develop policy guidelines and recommendations, and monitor progress with implementation.

ACKNOWLEDGEMENTS

This report presents the findings of a study that was undertaken in the Republic of Moldova between February 2013 and June 2013. This work is part of a project to support the development of micro, small and medium-sized enterprises in the Republic of Moldova. The project is jointly conducted by the OECD Investment Compact for South East Europe, the Ministry of Economy of the Republic of Moldova and the Moldovan Organisation for Small and Medium-Sized Enterprises Sector Development (ODIMM) with the financial support of the Government of the Netherlands. As part of the assessment, the OECD team conducted a number of missions to the Republic of Moldova to review findings and to conduct interviews with government officials, with representatives of public authorities and of the private sector and with international organisations.

Antonio Fanelli, Senior Economist, has had overall management responsibility. The project and report were co-ordinated by Anita Richter, Project Manager in the OECD Investment Compact for South East Europe. The principal authors of the report are Anita Richter, Gabriel Boc and Stela Ciobu. Additional support and research assistance was provided by Anna Rebmann, Andreea Minea and Maria Mozgovaya. The analysis and recommendations presented in this study were reviewed and enriched by comments from Antonio Fanelli, Alan Paic, Daniel Quadbeck and Marina Cernov. The final report was prepared by Vanessa Vallée, Liz Zachary, and Sally Hinchcliffe.

We are particularly thankful to His Excellency Valeriu Lazar, former Deputy Prime Minister and Minister of Economy, Lilia Palii and Valentina Veverita (Ministry of Economy), as well as to Iulia Iabanji and Oxana Ungureanu (ODIMM), who actively supported the implementation of this project and assisted with the organisation and facilitation of meetings in the Republic of Moldova. Thanks are also due to the numerous counterparts, in the government, in public administrations and in the private sector, who dedicated time to meet with the project team during the country missions. Furthermore, our gratitude extends to the numerous experts from international and bilateral organisations, who provided critical information on the status of policy reform in the Republic of Moldova. We are also grateful to Robert de Groof, Consul of the Kingdom of the Netherlands in the Republic of Moldova, and Marisia Pechaczek, First Secretary of the Embassy of the Kingdom of the Netherlands, for their support throughout the project.

The paper was peer reviewed during the first OECD Eurasia Competitiveness Roundtable, held in Paris on 4 December 2013. Mr. Tuna Sahin, Vice President of KOSGEB, Turkey and Mr. Harry Oldersma, Economic Counsellor of the Netherlands Delegation to the OECD led the peer review. Representatives of OECD member countries and of countries of the region participated in the peer review discussion.

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ABBREVIATIONS

ATM	Automated teller machines
CEP	Competitiveness Enhancement Project
CFR	Rural Financing Corporation
CGF	Credit guarantee fund
CHB	Credit history bureau
CIS	Commonwealth of Independent States
CPI	Consumer price index
EBRD	European Bank for Reconstruction and Development
EFSE	European Fund for Southeast Europe
EIB	European Investment Bank
EUR	Euro (€)
GDP	Gross domestic product
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International financial institution
KfW	Kreditanstalt fur Wiederaufbau
MAIB	Moldova Agroindbank
MDL	Moldovan leu
MFI	Microfinance institution
MIGA	Multilateral Investment Guarantee Agency
MOSEFF	Moldovan Sustainable Energy Financing Facility
NBM	National Bank of Moldova
NCFM	National Commission for Financial Markets
NCH	New Century Holdings
ODIMM	Moldovan Organisation for Small and Medium-Sized Enterprises Sector Development
OPIC	Overseas Private Investment Corporation
PCH	ProCredit Holding
RISP	Rural Investment and Services Project
SCA	Savings and credit association
RLM	I.C.S. Raiffeisen Leasing S.R.L in Moldova
SME	Small and medium-sized enterprises
USAID	United States Agency for International Development
VAT	Value-added tax
WNISEF	Western NIS Enterprises Fund

EXECUTIVE SUMMARY

Small and medium-sized enterprises (SMEs) play an extremely important role in modern economies. They create jobs, enhance competition, contribute to technological change and increase the use of domestic resources and products. In the Republic of Moldova, SMEs represent a significant sector of the economy employing around 60% of the workforce. As a consequence, developing the sector is essential for the overall development of the private sector and the economy.

One of the most important obstacles to SME growth in the Republic of Moldova is lack of access to finance. Enabling SMEs to overcome this obstacle is an integral part of the country's SME strategy. Based on desk research, a business survey and consultations with key stakeholders, this report reviews the current infrastructure enabling SMEs to access finance, and offers a policy roadmap for its improvement.

Interest rates are relatively low but bank lending to SMEs remains limited

The Moldovan economy recovered well from the global economic crisis in 2009, but the economy contracted by 0.8% in 2012 due to low internal demand and a drought which severely reduced agricultural output. This decreased the demand for bank credit from SMEs despite success in controlling inflation and average interest rates on loans being at a historically low level with 13.4% (nomial interest rate).

Good progress has been made in implementing a regulatory framework to improve finance provision

The Moldovan banking sector is generally strong, having recovered well from the global financial crisis. Banks have good liquidity and are mostly well capitalised and profitable. Sound regulations are in place to reduce credit risk in the banking sector, overseen by the National Bank of Moldova. Non-banking financial institutions such as microfinance institutions, savings and credit associations, and leasing organisations are licensed and supervised but still lack prudential norms.

To facilitate loans to SMEs the government is currently considering amending existing legislation to extend the types of collateral that can be accepted by banks. There are two credit guarantee schemes in operation, but they are currently underused, probably because they only cover 50% of the loan amount. A legal framework for credit bureaus has been introduced which requires commercial banks to disclose debtors' credit history data, although it is optional for non-bank institutions. The first credit bureau became operational in 2012 but its coverage is currently limited to 4% of adults and firms.

Bank loans dominate business finance, but the SME market is perceived as risky and costly

Moldova's financial system is dominated by the banking sector, and bank financing is the dominant form of external finance for Moldovan SMEs. By international standards the banking sector remains small with total assets of less than 60% of gross domestic product (GDP) and concentrated on the top five banks. SMEs receive a disproportionately small share of bank lending, and there are many impediments to its expansion.

The SME market is perceived by many banks as risky, costly and difficult to serve. In particular, banks find that SMEs applying for loans do not provide them with the right information, as SME managers often have limited financial and accounting skills. Credit history data, which helps banks to access the risk attached to loan applications, has only recently been made available, and the legal framework for enforcing quick recovery is weak. Banks' credit officers also often lack financial literacy and their pay is tied to the size of loans given, discouraging lending to SMEs.

High collateral requirements for bank loans and the importance of rural areas have fostered the development of microfinance institutions and savings and credit associations as an alternative to bank financing. Leasing is also available, but is not yet fully developed. These alternatives are more expensive than bank lending.

Loan conditions, interest rates and complex application processes are barriers to finance

Access to finance is crucial for business development and Moldovan SMEs are actively seeking external financing, most commonly loans from commercial banks. Where firms were successful in obtaining loans, they met almost all their external finance needs and often managed to obtain multiple loans. Unsuccessful applicants tended to be smaller and were more likely to be manufacturing companies, with higher relative financing needs than successful applicants.

Both successful and unsuccessful SME loan applicants see the same barriers to finance. The top barriers are the loan conditions, in particular the collateral requirement and interest rates, and the loan application process. They would like to see more information about banking products, simplified application processes, lower costs and a wider variety of assets accepted as collateral.

Policy roadmap for enhancing SME access to finance in the Republic of Moldova

1. **Enhance the legal and regulatory framework for financial infrastructure.** The regulation of microfinance institutions and leasing entities should be improved. Credit bureau coverage could be expanded by incorporating information from non-banking financial institutions. Consumer protection for financial products should be enhanced, so that loan costs and conditions are transparent. New types of collateral should be introduced, such as secondary guarantees, accounts receivables and warehouse receipts.

2. **Diversify the sources and types of external finance available.** Policies should encourage banks to provide credit products tailored for SMEs, such as working capital loans, overdrafts, and domestic and overseas trade financing. Banks should promote their credit products and provide consultations so that SMEs are aware of the range available. Better bank staff training would improve relations with SMEs. Longer grace periods before borrowers have to start repaying a loan would remove a major impediment to many SMEs. Banks should improve their credit risk management to reduce the risks of expanding their SME loan portfolios. Public credit guarantee schemes should be promoted by extending co-operation with commercial banks and boosting the incentives for SMEs to participate.

3. **Improve the investment readiness and financial literacy of SMEs.** SMEs should be supported in their business planning and financial management and coached in developing sound business and investment plans, and completing financial reports. Better information on the financial products available would allow entrepreneurs to make more informed financial decisions and could help build trust in financial institutions.

CHAPTER 1:

THE ROLE OF ACCESS TO FINANCE IN SME DEVELOPMENT IN THE REPUBLIC OF MOLDOVA

This chapter reviews the importance of access to finance for the development of small and medium-sized enterprises (SMEs) in the Republic of Moldova and looks at their main sources of finance. It pays particular attention to the role of bank lending and the difficulties SMEs encounter accessing finance from banks in the Republic of Moldova.

1.1 Role and importance of financial services for SME growth

Small and medium-sized enterprises play an extremely important role in modern economies. The SME sector is generally considered to be the most active sector of the economy and a force for innovation. Because of the sector's beneficial economic and social effects, it is an area of strategic interest for the economy. The most important positive effects generated by the SME sector are:

- consolidation of the competitive environment
- elaboration of technological opportunities
- penetration of market niches that are not profitable for larger-sized enterprises
- penetration of local economies by exploiting local resources.

Box 1. Definition of micro, small and medium-sized enterprises in the Republic of Moldova

- ***Micro enterprise:*** the annual average number of employees does not exceed nine, the annual amount of sales revenues does not exceed MDL 3 million (Moldovan lei, equivalent to EUR 0.17 million) and the total annual balance value of assets does not exceed MDL 3 million.

- ***Small enterprise:*** the annual average number of employees does not exceed 49, the annual amount of sales revenues does not exceed MDL 25 million (EUR 1.45 million) and the total annual balance value of assets does not exceed MDL 25 million.

- ***Medium-sized enterprise:*** the annual average number of employees does not exceed 249, the annual amount of sales revenues does not exceed MDL 50 million (EUR 2.9 million) and the total annual balance value of assets does not exceed MDL 50 million.

Source: Republic of Moldova (2006), "Lege privind susţinerea sectorului întreprinderilor mici şi mijlocii nr. 206-XVI, 07.07.2006" (Law on the support of small and medium scale enterprises No. 206-XVI from July 7, 2006), *The Official Monitor of the Republic of Moldova,* no. 126-130, 11 August 2006.

The Moldovan economy is no different. SMEs, which are defined according to their turnover, assets and number of employees (Box 1.1), play an equally important role in the Republic of Moldova:

- SMEs are an important source of new jobs and therefore support economic stability and growth. During last three years, around 60% of Moldovan workers were employed in the SME sector. Wage levels are relatively low, keeping SME labour costs down and further encouraging the creation of new jobs.
- SMEs play a fundamental role in enhancing competition, reducing the monopolistic ascendancy of large enterprises and integrating local and national markets.
- SMEs can increase standards of living, reduce poverty and augment the value of the labour force.
- SMEs contribute to technological and scientific progress by using and elaborating new technologies.
- SMEs increase the utilisation of domestic resources and products. In the Republic of Moldova, over 95% of all agricultural enterprises are SMEs and the development and consolidation of this sector has led to better management of the republic's natural resources.
- SME growth leads to the creation of new entrepreneurs and the development of a variety of skills as SMEs are more able to exploit and profit from economic niches than larger firms.

Despite this major role, SME growth tends to be more constrained than for large firms. Lack of access to finance is one of the major obstacles to growth. The main sources of external financing in the Republic of Moldova are banks. There are various factors that hinder SMEs from being granted bank loans. On the one hand, banks tend to impose strict conditions on SMEs, demanding guarantees as a result of unavailable or incomplete credit history or increased level of risk in the business activity performed. On the other hand, the structure of assets specific to the SME sector implies low stability and they usually have little access to real estate that could serve as collateral.

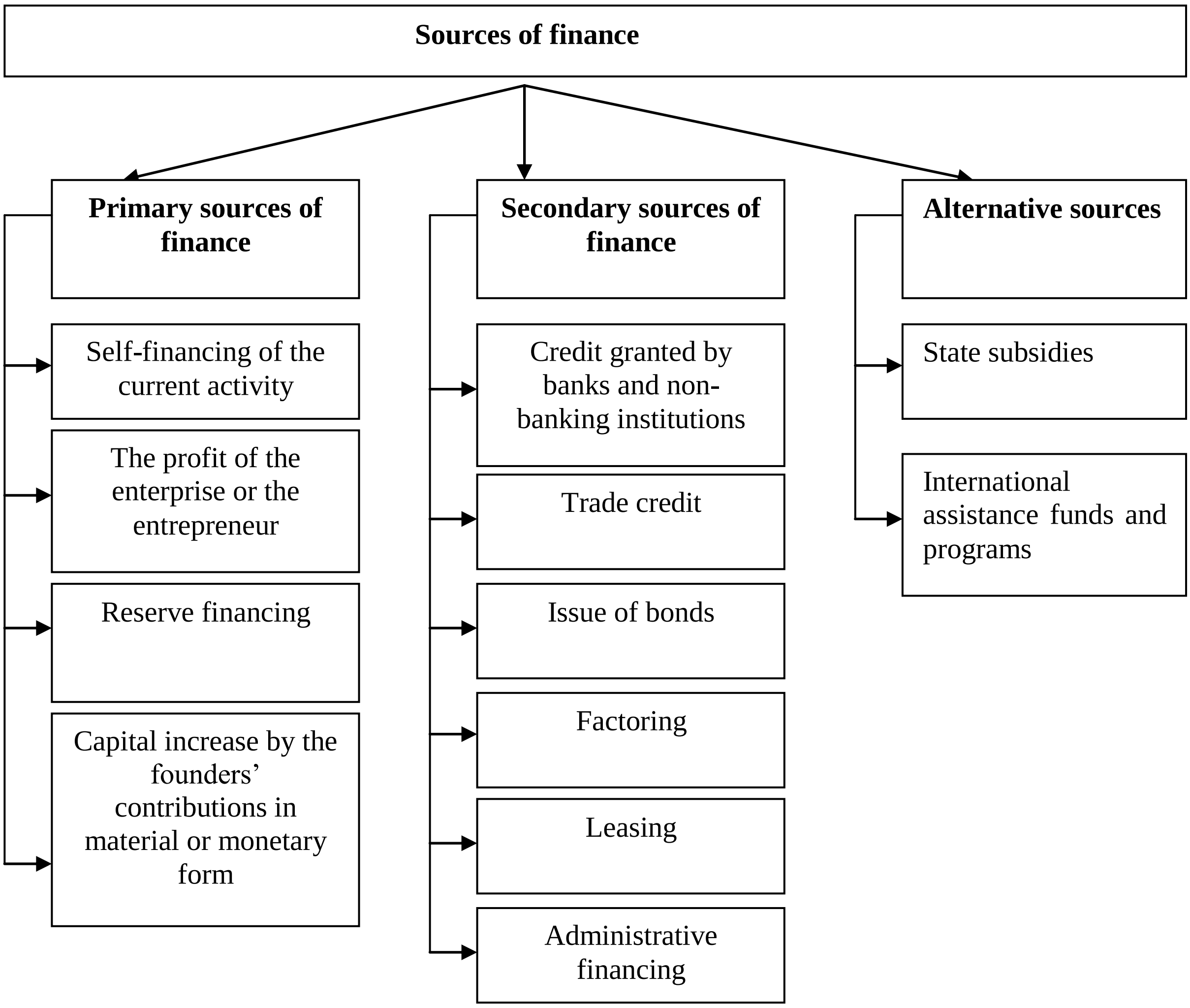
Moreover, the Moldovan banking sector is mainly oriented towards serving large enterprises and the trade sector. Banks lack confidence in the future profits of SMEs and thus are reluctant to provide them with finance. They often cannot control how the loan is used and guarantees are limited. Currently, only 27% of bank loans are granted to SMEs, despite them making up 97.6% of Moldovan enterprises.

1.2 Main sources of finance for SMEs

There is a variety of sources of finance available to Moldovan businesses (Figure 1) however the choice for SMEs is more limited than for larger companies. SMEs continue to be undersupplied with financial products and services (IFC, 2009).

- **Self-financing.** SMEs only have a limited ability to finance themselves as their sales revenues or other financial resources are likely to be limited, especially at initial stages of a SME's life cycle. About 72% of SMEs are registered as limited liability companies in the Republic of Moldova. Financing from social capital is determined at the minimum level amounting to MDL 5 400 (EUR 314) (Republic of Moldova, 2007c). This is rather low compared with SMEs' real financial needs.

Figure 1. The main sources of finance for businesses



- **Individual loans from business partners or affiliated persons.** Over 75% of SMEs are micro enterprises and have a limited number of business partners, making such loans hard to come by. Individual loans are generally short term and so not suitable for SMEs needing long-term investments.

- **Issuing shares or bonds.** Very few SMEs are established as joint stock companies. In addition the capital market in the Republic of Moldova is underdeveloped and the cost of issuing bonds or shares is very high.

- **Administrative financing** (or financing by debt control). This is a form of financing that involves not paying debts to suppliers, creditors, employees, or not settling other outstanding liabilities. It can run counter to the law and seriously affect the image of the enterprise, leading to loss of business partners and confidence.

- **Commercial lending.** This can act as a source finance for short-term business needs as well as long-term investment purposes. However, the amount and the duration of credit available are limited, especially at the beginning of a SME's life cycle, when it is only just establishing business relations with its commercial partners.

- **Leasing.** Leasing vehicles or equipment can be an alternative form of finance. It generally costs more than bank lending but fewer guarantees are required from the borrower. If the object of the leasing contract is a unique or a large-scale good, the leasing arrangements may take a long time and require considerable effort. In areas of rapid technological progress, the leased asset may become obsolete when the leasing contract expires.

- **Foreign investments and external assistance projects.** These can play an important role in supporting and financing SMEs. They may be more impermanent than bank credit, but investments made at the right time may be more effective and efficient than bank loans.

1.3 The role of bank lending

In order for SMEs to grow and consolidate their position, they need access to finance, and bank credit is one of the most relevant forms of finance. For banks, the SME sector is economically valuable due to its importance in most economies. In addition, as a country develops, the SME market will only increase in size. In low-income countries such as the Republic of Moldova, banks may play a critical role in determining the character of future development and growth for SMEs. As a result, the availability of bank credit can be decisive in stimulating economic growth. Facilitating the process of SME lending by banks is key to building a successful business sector and stimulating new opportunities.

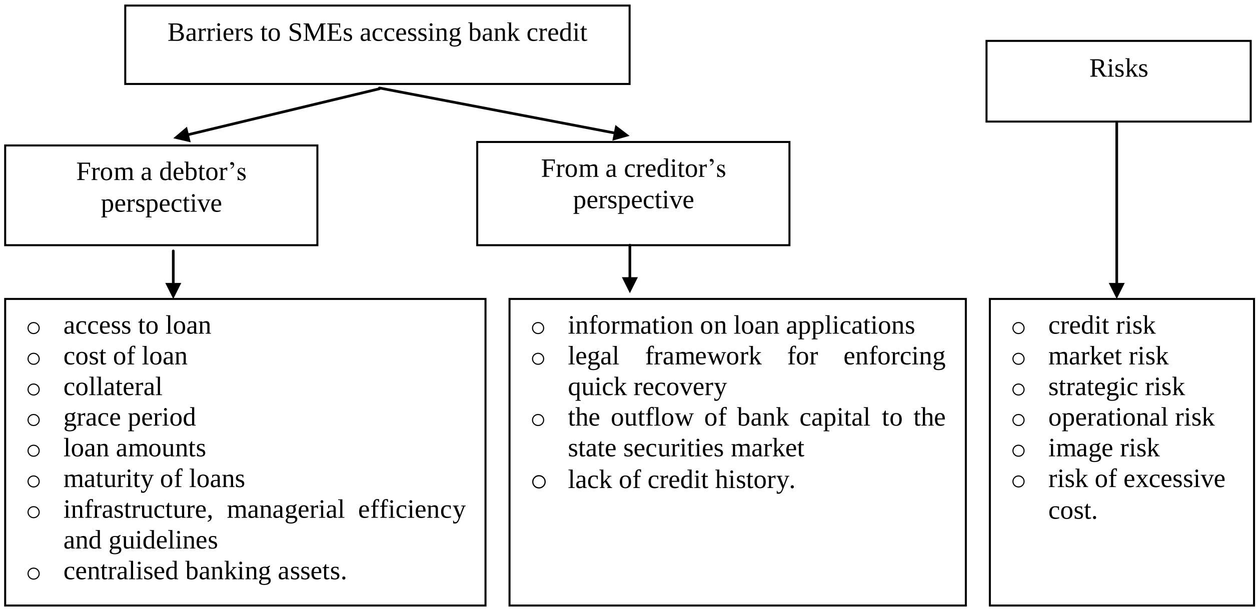
Commercial bank lending to SMEs undoubtedly plays a crucial role in the economy of the Republic of Moldova in terms of output, employment, private-sector activity and economic stability. However, bank lending to SMEs is still developing. Moldovan SMEs operate in a convoluted macroeconomic environment, facing political, labour, financial and monetary-market instability resulting in a high risk of default among SMEs. Banks are not ready to take on the increased risks associated with lending to SMEs, as they perceive the SME market to be risky, costly and difficult to serve. This is a serious obstacle to SMEs requiring bank credit.

In order to profitably serve the SME sector, Moldovan banks need to find effective means of determining credit risk and lowering operating costs. International experience suggests that banks tend to prioritise lending to SME clients, acknowledging the opportunity to expand their market share and increase profit.

1.4 Obstacles to bank finance

In general, bank credit has numerous advantages for SMEs. In the short term it allows SMEs to finance their current business activities and solves a variety of liquidity and reputation problems. In the long term, it stimulates growth, modernisation and innovation. However, there are a number of impediments associated with bank lending. The main challenges and risks associated with SME lending from the point of view of the debtor and the creditor identified during the fact-finding missions are shown in Figure 2.

Figure 2. Barriers and risks associated with commercial bank lending



From the SME perspective the most relevant obstacles to bank lending are:

- **Access to loans.** Banks are reluctant to provide loans to SMEs due to the high processing and monitoring costs of those types of loans. Moreover, SMEs generally have only non-real-estate assets, which they find difficult to use as collateral for loans.

- **Collateral.** Both entrepreneurs and banks identify high collateral requirements as a major impediment to SME lending. Current bank regulations require minimum levels of collateral which many SMEs cannot meet. An efficient credit guarantee fund (CGF) could help overcome this hurdle.[1] Currently the SME agency the Moldovan Organisation for Small and Medium-Sized Enterprises Sector Development (ODIMM) operates a small-scale public CGF by offering guarantees to SMEs. However, the fund needs to be enlarged to have a significant impact on SMEs.

- **Grace period.** Most banks require that entrepreneurs begin repaying loans almost immediately after being granted credit. This is a major obstacle for businesses at the initial stage of development, which are often not able to turn a profit within such a limited timeframe. Therefore banks should offer entrepreneurs a minimum grace period.

- **Loan amounts.** The level of credit offered to SMEs is often insufficient, as banks may seek to reduce risk by restricting loan amounts. This may actually increase the risk as business projects which are not fully financed are more likely to fail before the loan can be repaid.

- **Cost of loan.** Although the interest rate has decreased twice in 2012 and achieved a historically low level of 14%-18%, SMEs still perceive the interest rate as too high.

- **Length of loans.** SMEs are mainly granted only short-term loans as banks are reluctant to offer long-term ones because of the increased level of risk.

- **Infrastructure, managerial efficiency and guidelines.** Most SMEs do not have even basic infrastructure, especially if they are recently founded. These enterprises depend on exploiting changeable market opportunities and are not able to maintain relative stability. Managerial efficiency can also be an issue.

- **Centralised banking assets.** About 70% of the assets of the entire banking system are concentrated in the municipality of Chisinau. A significant part of the remainder is concentrated in big cities such as Bălţi, Cahul, Ungheni, and Hînceşti. As a result, SMEs in larger cities tend to have better access to credit and consequently tend to grow faster. SMEs in rural areas are dependent on the geographical distribution of banking institutions in their area.

From the banks' perspective the key constraints and risks associated with lending to SMEs are:

- **Information on loan applications.** SMEs often do not provide banks with the required information (e.g. a sound business plan, adequate audit report), significantly prolonging the loan application process.

- **Legal framework for enforcing quick recovery.** There are no legal instruments implemented in the Republic of Moldova to guarantee recovery of debts in the event of a default.

- **The outflow of bank capital to the state securities market.** Banks in the Republic of Moldova prefer to invest in state securities in order to avoid the credit risk.

- **Credit history**. Credit history data has been available since October 2012. But only commercial banks share the credit history of clients with the Credit Bureau. Participation should be extended to non-banking financial institutions such as microfinance institutions (MFIs), savings and credit associations (SCAs) or leasing companies. This would allow SMEs to create a complete credit history from the start, which will later make it easier for them to obtain larger loans from commercial banks.

As illustrated above there are a number of obstacles to banks lending to SMEs. However, international experience shows that across the world banks actually prioritise lending to SME clients. For these banks, SMEs represent an opportunity to expand their market share and increase profit.

Non-banking financial sector

The demand for financial resources cannot be totally satisfied by the banking sector. Important non-banking financial institutions include MFIs and SCAs, as well as specialised credit institutions such as leasing companies and mortgage agencies. A more detailed analysis of this sector is presented in Chapter 3. In the Republic of Moldova about 75% of enterprises are micro enterprises. Such very small businesses can access the resources supplied by microfinance institutions and savings and credit associations more easily than those offered by banks.

The MFI sector in the Republic of Moldova is quite young, but the country holds a lot of potential. Increased competition in the traditional banking sector is compelling the commercial banks to seek growth opportunities. By actively offering microfinance, banks could take advantage of these opportunities.

1.5 Conclusion

SMEs play a crucial role in modern economies: creating jobs, generating economic growth and advancing innovation. In the Republic of Moldova, access to finance is a major obstacle for the SME sector. SMEs obtain finance from a variety of sources, with bank financing being the most important. Bank finance has many advantages over other forms of finance such as providing longer-term financing. Consequently, facilitating bank lending to SMEs in the Republic of Moldova is key to private-sector development.

Bank credit is often difficult for SMEs to access because of the loan conditions. Loan amounts tend to be too small, and the loan maturity and grace periods before repayment are too short. Moreover SMEs frequently face problems in meeting collateral requirements and they perceive the cost of loans to be too high. Banks are concentrated in urban centres with SMEs located outside the larger cities having poor access to banking institutions.

SMEs frequently lack the infrastructure and management skills needed to obtain bank loans. Banks are reluctant to lend to SMEs because they often do not provide the right information on the loan application, while their credit histories are often limited. The lack of a legal framework for enforcing quick recovery of defaulted loans is another barrier.

The banking sector needs to find solutions to help determine credit risk and lower the costs of dealing with the SME sector. It is likely that access to finance for SMEs will also be improved as the relatively young non-banking financial sector matures.

[1] A credit guarantee fund is a risk transfer and risk diversification mechanism which lowers lender risk by guaranting repayment of part of the loan upon default of the borrower. It can also help diversify risk by guaranteeing loans across different sectors or geographic areas. Furthermore, there can be informational gains if the guarantor has better information about the borrower than the lender.

CHAPTER 2:

THE MACROECONOMIC ENVIRONMENT AND REGULATORY FRAMEWORK

An economy's overall macroeconomic and regulatory environment is a critical determinant of SME access to finance. Macroeconomic stability is essential for a well-functioning financial sector. A good investment environment needs a stable macroeconomic environment with low inflation and stable exchange rates as this reduces the uncertainty that both lenders and borrowers face when assessing loan risks (Fisher, 1993). However, monetary policies to ensure stability, such as monetary tightening and cutting inflation, may reduce the amount of credit available for SMEs, as can policies that lead to excess demand for domestic savings.

The regulatory framework plays an essential role in the amount and types of credit available to SMEs as well as which types of financial institutions exist to serve the SME sector (Berger and Udell, 2006). Above all, the regulatory framework determines the soundness of the financial system. Sound financial systems are important for the efficient allocation of credit (Lindgren et al., 1996). However, some regulations, such as those embodied in the Basel Accords, while improving the soundness of the financial system, may increase the costs of lending and encourage suppliers of finance to shift into safer assets. This may especially affect the supply of credit to SMEs as they are often higher risk borrowers. Other aspects of the regulatory framework may reduce the cost of lending to SMEs, such as regulations improving lenders' access to information on potential borrowers. Strong accounting standards, as well as well-developed credit bureaus and credit rating agencies, increase the ability of finance providers to judge the risks involved in lending to SMEs, thus facilitating the supply credit to the SME sector (OECD, 2006).

Consequently, in order to analyse the access to finance of Moldovan SMEs and the ability of financial institutions to lend to this sector, it is essential to understand the macroeconomic environment and regulatory framework and to identify the positive and negative trends which may determine this process.

2.1 The macroeconomic environment: an overview[2]

The Moldovan economy was hit by the global economic crisis in 2009 when real gross domestic product (GDP) shrank by 6%. Growth returned in 2010 but in 2012 the economy once again contracted as the growth rate fell to -0.8%. This was mainly due to low internal demand and a shock in the agricultural sector which was severely hit by drought. The economy was expected to return to growth in 2013, although it remains vulnerable to further agricultural shocks and to poor economic performance of the euro area and Russia. In the same period, inflation has been kept under control; in 2012 the consumer price index (CPI) inflation rate decreased by 2.2% to 5%, which corresponds to the targets set under the *Strategy of Monetary Policy for 2010-2012*. Table 1 lists the main macroeconomic indicators for the last five years.

Table 1. Macroeconomic indicators for the Republic of Moldova, 2008-2012

Indicator	Unit of measurement	2008	2009	2010	2011	2012
Nominal GDP	current USD billion	6.1	5.4	5.8	7.0	7.3
GDP growth	%, y-o-y	7.8	-6.0	7.1	6.8	-0.8
CPI inflation	%, average	12.8	0	7.4	7.2	5.0
Current account balance	% of GDP	-16.1	-8.2	-7.7	-11.3	-9.4*
External debt	% of GDP	55.2	65.5	67.3	67	..

Sources: World Bank, *World Economic Outlook* (IMF), EBRD, OECD statistics. * estimates

Currently, 14 banks are licensed to operate in the Republic of Moldova, 4 of which are branches of foreign financial groups. On the whole, the banking sector is generally strong, having recovered well from the global financial crisis. Banks generally have good liquidity, are well capitalised and profitable. However, there are concerns about the capital adequacy and credit quality of the majority state-owned bank Banca de Economii. One small bank was put into liquidation in February 2012 but the overall stability of the financial system was not affected (IMF, 2012).

The value of the banking sector's first-tier capital decreased by 6.4% between 2011 and 2012 to MDL 6 924 million (EUR 402 million). This was determined by the increase of calculated capital (MDL 200 million, or EUR 11 million). Allowances for asset losses and conditional commitments increased as a result of the poor credit portfolio of Banca de Economii and Eximbank. The average of the risk-weighted capital remained at a high level of 24.4%, which confirms a high degree of stability of the banking sector. Only two banks did not achieve the minimum required rate of 16%.

Banking sector assets rose by 18.3% in 2012, to reach MDL 58 billion. This is a result of increased debts, which rose 21.2% to MDL 8.4 billion and higher bank capital, which rose 6.3% to MDL 0.6 billion. Banks' gross loan portfolios increased by 14.3% to MDL 35 billion. Gross loans amounted to 39.8% of GDP. Table 2 lists the main banking sector indicators for the last five years.

Table 2. Banking sector indicators for the Republic of Moldova, 2008-2012

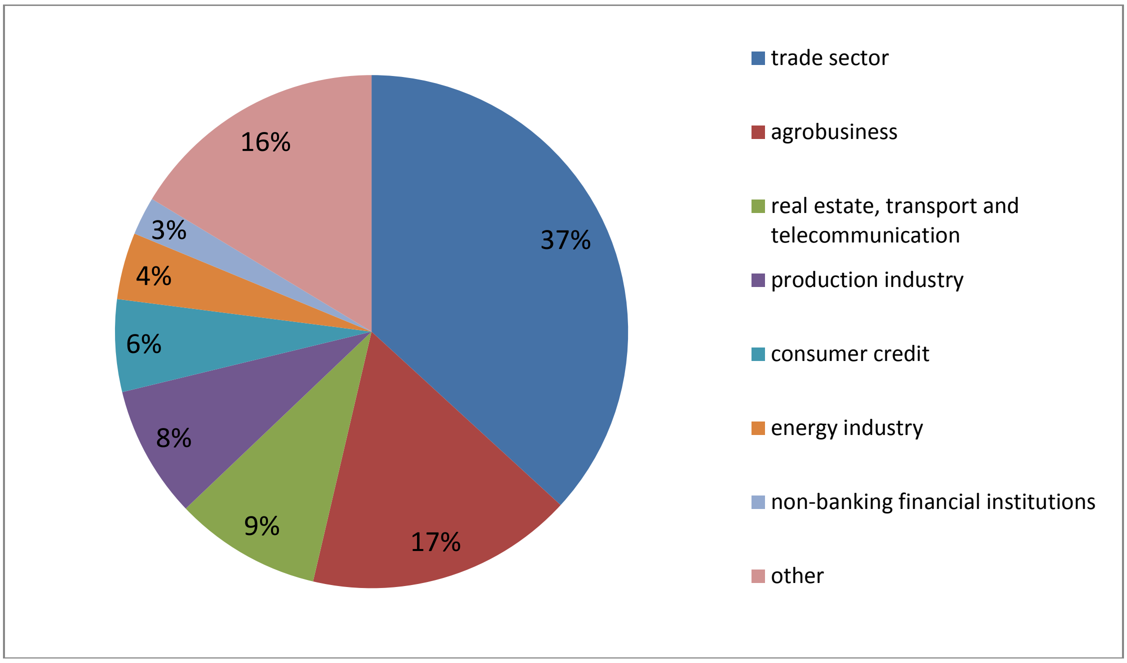
Indicator	Unit of Measurement	2008	2009	2010	2011	2012
Domestic private sector credit	% of GDP	36.5	36.0	33.3	33.6	38.1
Banks capital to assets ratio	%	17.0	16.1	16.0	15.8	12.3
Total banking sector assets	MDL billion	39	40	42	48	58
Gross loan portfolio	MDL billion	25	22	26	30	35
Gross loans	% of GDP	39.4	37.1	35.5	36.3	39.8
Nonperforming loans	% gross total loans	5.2	16.4	13.3	10.7	15.2
Interest rate spread (lending rate - deposit rate)	%	5.8	6.9	8.7	5.6	3.1
Lending interest rate	%	21.1	20.5	16.4	14.4	13.4
Real interest rate	%	5.5	6.3	4.8	18.0	10.8

Sources: World Bank, *World Economic Outlook* (IMF)

The total balance of loans in the economy has increased by 16%. This trend was influenced by a lower interest rate. The trade sector accounts for the greatest share of the total portfolio of loans (36.7%), followed by the food industry (10.6%) and the production industry (8.3%) (Figure 3).

The average interest rate on new local-currency loans reached 12% in 2012, a historically low level, while the interest rate on new foreign-currency loans averaged 8.3%. Despite the lower interest rate, the demand for credit fell due to modest economic activity and the agricultural sector crisis. At the same time, the volume of bad loans increased by 28.9% amounting to MDL 5.4 billion. As a proportion of all loans, bad loans increased slightly to 14.5%. The index of long-term liquidity in the banking sector was 0.7, out of a maximum of 1.0. The current liquidity of the banking sector is 32.9% (minimum 20.0%). Compared to the period before the crisis, the profits of the banking sector have fallen by 29% to MDL 0.6 billion (EUR 34 million).

Figure 3. Total loan portfolio, 2012



Source: National Bank of Moldova (2012), *Annual Report of the National Bank of Moldova for 2012*, National Bank of Moldova, available at www.bnm.org.

2.2 Laws and regulations shaping the financial framework

The National Bank of Moldova (NBM) has implemented the Basel I requirement for banks to have adequate credit risk control systems in place. The NBM is now initiating the transition of the Moldovan banking system to fulfil the requirements of Basel II. These require banks to develop methodologies to enable them to assess the risk of individual borrowers and their credit portfolio. They focus on rating systems for risk assessment, credit portfolio analysis, complex credit derivatives, large exposures and risk concentration.

As providing credit is a bank's fundamental activity and its primary means of obtaining revenue and profit, it is crucial for banks to minimise losses from non-performing loans. Banks need to evaluate the risks involved in the granting of loans and collecting repayments in order to protect savers' deposits. They need to implement prudential norms ensuring that applicants are likely to be able to repay a loan at maturity, and to analyse borrowers' creditworthiness and loan guarantees.

A number of laws and regulations have been put in place in the Republic of Moldova to limit credit risks in banking:

Use of collateral

Banks can use a number of methods to minimise risk when deciding whether to grant a loan. Computerised methods quantify and rank the conditions and preconditions for granting credit. Loan guarantees can also be used to reduce credit risk. Banks in Moldova accept collateral (such as pledges, mortgages or bank deposits) and personal assurances (bank guarantees, deposits, assignment of claims or state guarantees) as credit guarantees. *The Law on Collateral* (Republic of Moldova, 2001) established the guarantees and collateral that banks can use to reduce risk and cover losses. However, the law no longer reflects market requirements. The NBM, with the support of the World Bank, has started to draw up amendments to the law, extending the types of collateral that banks can accept. These include secondary guarantees, future goods and the assignment of claims. In practice, several banks in the Republic of Moldova already use these types of guarantees. Legalising this extension of the collateral market offers an opportunity for the banks and certainly would contribute to solve one of the main barriers to accessing finance for SMEs.

Limitation of loans

Banks are limited in how much they can lend to an enterprise (*Regulation on* "*Large*" *Loans;* Republic of Moldova, 1995), to affiliated persons and to bank employees (*The Regulation on Transactions with Affiliated Persons*; Republic of Moldova, 2010). A bank's net exposure to an enterprise shall not exceed 15% of the total regulatory capital of the bank. The total amount of loans to an affiliated person and to bank employees may not exceed 10% of the total regulatory capital of the bank.

Internal analysis

A key element of a bank's lending policy is internal analysis of its loan portfolio. Internal review involves the systematic review of the bank's credit portfolio for the early detection of increased risk and to determine the measures needed to deal with any doubtful credits and losses, including the formation of a risk fund. According to the regulations (Republic of Moldova, 2007a), an internal credit review should include:

- indicative information on the current situation of the credit portfolio
- evaluation of positive and negative tendencies of the credit portfolio
- identification of problematic credits
- rigorous analysis of problematic credits

- the creation of a risk fund
- identification of non-compliance with external and internal instructions regarding credit activity.

Credit history bureau

A credit history bureau (CHB) is any private lawful juridical entity taking the form of a limited liability company or stock company, which provides services for establishing, processing and storing credit histories, as well as credit history submissions and other related services.

The *Law on Credit Bureaus* (Republic of Moldova, 2008a) requires commercial banks to participate in the establishment of the credit history database and disclose debtors' credit history data. For all other non-banking institutions, including microfinance institutions, savings and credit associations, and leasing companies, participation is optional. This limits the ability of the clients of these institutions to build up a credit history, which could be an impediment for SMEs wanting to establish a relationship with a bank in the future. The law neither provides nor regulates the access of CHBs to relevant data in open public registers kept by local or central public authorities, nor the mechanism of data interflows and/or exchange between databases of open public registers and those of local CHBs.

Î.M. "Credit Bureau" LLC Moldova is the first company created to process, store and present information about debtors' compliance with their obligations under credit agreements. It aims to increase the protection of creditors as well as debtors and spur the efficiency of financial institutions and other companies that provide credit. It has established a credit history database for individuals and businesses and it prepares credit reports. The associates of the Credit Bureau are the 14 commercial banks in the Republic of Moldova as well as 2 leasing companies and its activities are regulated by the National Commission for Financial Markets (NCFM). As yet coverage is still limited; credit histories are available for only 3.9% of adults and firms (World Bank, 2013).

Legal framework for the non-banking financial sector

Several laws regulate the activity of non-banking institutions in the Republic of Moldova:

Microfinance organisations

Microfinance institutions are regulated by the *Law on Microfinance Organisations* (Republic of Moldova, 2004), which stipulates their legal statute and patterns of incorporation and activity. The law ensures the appropriate conditions for the protection of the legal rights and interests of the organisations' creditors, donors, and beneficiaries as well as of their founders, members, associates, and shareholders. Microfinance organisations are expected to provide broader access to financial services than commercial banks can, including to individual entrepreneurs and micro, small and medium-sized enterprises. Microfinance activity is deemed to include the provision of services such as granting and managing loans, providing guarantees for loans and bank loans, and the provision of investments. Microfinance organisations must make provisions to cover losses incurred from defaults on loans and interest. A microfinance organisation may independently establish the limits and conditions under which it provides its services.

The law only provides a very general framework for the activity of this category of institutions and does not establish any prudential norms for the activity of microfinance institutions. In order to better regulate this sector, which has been developing rapidly over the last five years, a new draft law on non-banking institutions was elaborated to introduce such norms. However, although it was presented for public debate, it was firmly rejected

Savings and credit associations

Savings and credit associations (SCAs) are also actors in the Moldovan credit market. Their activity is regulated by the *Law on Savings and Credit Associations* (Republic of Moldova, 2007b). SCAs are non-commercial organisations, with a special legal status, constituted voluntarily by common bond by physical and legal entities. They accept deposits from their members and provide loans and other financial services to them, in accordance with the category of licence held. The National Commission for Financial Markets issues three categories of licence: A, B, and C.

The SCAs are regulated by the NCFM. It establishes prudential norms, which are applied to all licensed associations in order to protect the interests of members, and prevent, control and manage risks within associations and across the whole system. There are norms for each category of licence which establish the minimum institutional capital needed, maximum limits on loans, requirements for investments in real estate and other assets, liquidity requirements, how maturity terms and interest rates have to be matched to assets and liabilities, the assessment and classification of assets and formation of loan loss provisions, minimum levels of investments, and contributions to the liquidity pool and stabilisation fund.

In 2007, the SCA sector was substantially reformed, leading to new principles and prudential norms. These establish the requirements for limiting loan risks (Republic of Moldova, 2008b):

- For an association holding a category A licence, or an association holding a category B licence in the first three years of activity, the total value of loans granted to a member or group of members acting together cannot exceed 10% of the loan portfolio. After the fourth year, an association holding a B category licence can grant loans to a member or group of members totalling 75% of its institutional reserve. For an association holding a category C licence this rises to 100% of its institutional reserve after its second year.

- The total value of unsecured loans granted to a member or a group of members acting together cannot exceed 40% of the institutional reserve for an association holding a category B licence or 75% of the institutional reserve for an association holding a category C licence.

- The total value of unsecured loans of an association holding a category C licence cannot exceed the value of the total loan portfolio.

- The overall value of the ten biggest loans granted to members or groups of members acting together cannot exceed 25% of the loan portfolio of an association holding a category B licence.

- The total value of loans granted to affiliated members cannot exceed four times the institutional reserve of an association holding a category B or C licence.

- Where two or more of these provisions might apply, the more restrictive provision should be followed.

- Associations should make provision for loan losses, building up a percentage of the balance of the loan and related interest.

- Loans requested by affiliated persons and/or groups of members acting together with affiliated persons will be provided and managed in the same manner as similar loans provided to other members.

Leasing companies

The activity of the leasing companies is regulated by the *Law on Leasing* (Republic of Moldova, 2005), which sets the legal basis for the regulation of leasing relationships, establishes the object of leasing, the participants to leasing operations, and their rights, obligations and liabilities. The law covers financial leasing, operating leasing, leasing-barter, compensational leasing, lease-back, consumer leasing, direct leasing, domestic leasing and international leasing.

The activities of the leasing companies in Moldova are barely regulated and the law does not enforce any prudential norms for leasing firms. Some leasing companies argue that the Moldovan leasing market is mature enough to need new business rules and prudential norms. The development of the leasing sector in the Republic of Moldova is being supported by a new draft *Law on the Non-Banking Financial Sector* that introduces leasing as a new option and creates an interplay between leasing and microfinance. Although the law is limited in its provisions, it sets statutory capital requirements, prudential requirements and reporting requirements. The prudential provisions are not particularly stringent as the entities covered by the law are not allowed to attract deposits. The law is in an early stage and is yet to be debated.

Consumer protection

The financial market in the Republic of Moldova still lacks regulation ensuring transparent information about the conditions of credit, for instance interest rates, commissions or documentation. Several years ago, the financial sector initiated a draft law for the protection of consumers of financial products, which was finally rejected and is no longer under discussion. The sector still argues that such a law is needed to establish and ensure the rights of consumers of financial products.

2.3 Conclusions

The Moldovan economy contracted in 2012 affecting demand for credits from SMEs despite low inflation and historically low interest rates. In 2012 the banking sector increased its assets, debts and gross loan portfolio, and the total balance of loans in the economy increased. At the same time, the share of bad credits increased slightly and banking profits fell.

The NBM has implemented all Basel I requirements to regulate the banking sector and is working on the implementation of Basel II. To reduce credit risk in the banking sector, the Republic of Moldova has legislation which imposes limits on large loans, credits to affiliated persons and lending to bank employees. The regulation also requires banks to perform internal analyses of their loan portfolios and establishes allowances for losses.

The law on collateral is currently being amended to extend the types of collateral that can be accepted by banks, including secondary guarantees, future goods, and assignments of claims. These new types of collateral should help SMEs meet the requirements attached to loans. A legal framework has been introduced for credit bureaus and one credit bureau has been established. This should increase protection for both creditors and debtors, and the efficiency of the financial sector. However, although commercial banks are required to provide credit information, it is optional for non-banking institutions which limits the ability of individuals and businesses to build up credit histories.

Regulations are also in place for non-banking financial institutions. Microfinance institutions are regulated by a very general legal framework which does not establish any prudential norms for these institutions. In contrast, savings and credit associations are heavily regulated with prudential norms established for limiting loan risk and requiring loan loss provisions. The activity of leasing companies is weakly regulated and again includes no prudential norms.

Several policy recommendations follow from this overview of the legal and regulatory framework:

- Banks need to develop methods for risk assessment of individual borrowers and credit portfolios, such as rating systems for risk assessment, credit portfolio analysis, complex credit derivatives, large exposures and risk concentration.

- The government needs to pass and implement the amended law on collateral to extend the types of collateral accepted.

- Non-banking institutions should be required to contribute information to credit history databases as this would allow CHBs to supply more complete credit histories.

- The government should introduce better regulation for microfinance organisations and leasing companies, including prudential norms.

- Consumers of financial products need better legal protection, in particular more transparent information about the conditions of credit.

[2] Data used in this section are taken from the *Annual Report of the National Bank of Moldova for 2012* (National Bank of Moldova, 2012).

CHAPTER 3:

SOURCES OF EXTERNAL FINANCE FOR SMES

In all economies, SMEs are disadvantaged in accessing external finance because of the increased costs of loans to the sector due to asymmetric information and monitoring issues. However, an economy's financial structure shapes the quantity and type of finance available for SMEs. The size of the financial sector, the type of institutions, the terms and costs of loans to the SME sector all affect the ability of SMEs to access finance (OECD, 2006).

Improved access to finance for SMEs and better targeted government policies require an understanding of the current situation of finance providers in the Republic of Moldova, especially the conditions and the cost of lending to SMEs. This chapter provides a qualitative overview of the key providers of finance to SMEs, based on a number of fact-finding meetings with finance providers undertaken between March and June 2013.

Access to finance in the Republic of Moldova is largely dominated by the banking system. However, given the high level of collateral requirements by banks and the importance of rural areas to the economy, microfinance institutions (MFIs) and saving and credit associations (SCAs) have developed as an alternative to bank lending. Other sources of finance, such as leasing, are not yet fully developed. There is almost no equity finance available in the Republic of Moldova.

3.1 Banking institutions

While Moldova's financial system is dominated by the banking sector, the banking sector remains small in international terms, but is growing, with total assets of 59.8% of GDP at the beginning of 2012, rising to 66.4% at the end of that year. In 2012 the total assets of the Moldovan banking system represented MDL 5.8 billion, increasing 18.3% from the beginning of the year. The asset growth was determined by the increase of debts by MDL 8 414.1 million (21.2%) and by the capital increase by MDL 608.3 million. The ratio of domestic credit to GDP was about 36% in 2011 and lending to SMEs is estimated to be about 31% of banks' loan portfolios.

Fourteen commercial banks operate in the Republic of Moldova, mostly privately owned with some foreign participation. They have a presence mainly in urban areas with representative offices in the countryside. The banking market is fairly concentrated with the five largest banks accounting for about two-thirds of total assets. The largest institutions are Moldova AgroInd Bank and Victoriabank SA. Foreign-owned banks represent only 23% of the sector's total assets (National Bank of Moldova, 2013). Table 3 summarises the information on the banks covered here.

Banca Sociala

Established in 1991, Banca Sociala S.A. is a commercial bank which is primarily involved in retail banking, performing a wide range of services and addressing all categories of customers through its network of 20 branches, 1 central bank and 46 agencies in the Republic of Moldova.

Part of the Banca Sociala's lending to SMEs is sourced from other banks and international financial institutions (IFIs) such as the European Bank for Reconstruction and Development (EBRD), the European Fund for Southeast Europe (EFSE), and the credit lines administered by the Moldovan Ministry of Finance from the International Fund for Agricultural Development (IFAD), the World Bank's Competitiveness Enhancement Project (CEP) and the Rural Investment and Services Project (RISP). These borrowings approximated EUR 17 million in 2011. The bank concentrates on SMEs, especially those exporting goods and services or those who process and preserve agricultural production in rural areas.

Banca Sociala's loans to SMEs have different restrictions depending on which IFI funded the credit. Loans can be worth up to EUR 100 000 and the loan term up to 8 years. The loan amount is determined by the bank based on the cost of doing business, according to its internal plan and business efficiency, taking into account the borrower's creditworthiness and their credit history. Interest rates vary from 8% to 12.6% annually.

FinComBank

FinComBank was founded in 1993 as a joint stock company. Its main business is with corporate clients and it considers SMEs to be a priority. Over the years FinComBank has collaborated with the World Bank, the EFSE and with private foreign investment corporations such as the Overseas Private Investment Corporation (OPIC).

FinComBank is a member of a project financing rural sector and small enterprise development, run by the International Fund for Agricultural Development (IFAD), and is part of the Rural Investment and Services Project (RISP). In August 2007 the fund known as Western NIS Enterprises Fund (WNISEF) purchased 25% of the bank's shares, becoming one of its largest shareholders.

Currently, the bank's investment programmes for entrepreneurs and SMEs in rural areas is financed by the credit line of the Kreditanstalt fur Wiederaufbau (KfW). In order to get a loan, SMEs should be up to date with the legal forms and standards relating to environmental protection and the principles of environmental impact assessment. The maximum amount of a sub-loan is EUR 200 000 for each eligible beneficiary, in Moldovan lei.

FinComBank has focused on micro, small and medium-sized enterprises since 2009. Small credits of up to MDL 75 000 (approximately EUR 4 600) can be issued without collateral requirements. The average loan is MDL 270 000 (EUR 17 000). The average credit portfolio in 2012 was MDL 307 000 (EUR 17 850). The distribution of loans was 92% to SMEs, 6% to micro firms and 2% to large firms. In total, the bank has 2 000 clients, of which 1 000 were micro enterprises, sole entrepreneurs or individuals. Its credit risk is 5%, but rises to 13% when including problematic loans awarded prior to 2008. Real estate is normally used as collateral and is calculated based on 70% of the market value. If equipment or goods are used as collateral, the percentage is lower: up to 50% of equipment, or up to 40% of the material costs of goods.

Mobiasbanca

Mobiasbanca is part of the French group, Société Générale. It has total assets worth MDL 2.2 billion (EUR 130 million), covering both its corporate and retail activities. Mobiasbanca caters to a mostly urban, services-oriented portfolio of SMEs. It devotes MDL 500 million (approximately EUR 30 million) to SME lending, sourced from IFIs including the European Investment Bank (EIB), EBRD, the World Bank and IFAD, and from the bank's own resources. The IFI-based credit lines also integrate some grant components.

Mobiasbanca treats firms with turnovers of less than MDL 3 million as micro enterprises and those with turnovers between MDL 3 million and MDL 50 million as SMEs, which is in line with the official definitions. The bank lends credit to finance working capital for up to 36 months and for investments for up to 5 years.

Loan conditions differ depending on whether the bank uses its own resources or funding from IFIs. If it uses its own resources, the interest rate varies from 9% to 14% when lending in local currency and from 6.9% to 9% when lending in euros or US dollars. The interest rate for loans from IFI resources is on average 1 to 2 percentage points lower. The average value of an SME loan is MDL 700 000 to MDL 800 000 (approximately EUR 45 000 to 50 000). The bank's credit risk for its entire portfolio is 5.1%, while its SME portfolio has a risk of 4.8% to 5%, indicating that SME lending poses no additional risks. In general, over 70% of a loan is secured using mortgage collateral and around 15% with working capital and existing stock. The use of secondary collateral is very limited.

The bank highlights that, although it has enough liquidity for further lending, there is limited SME demand that meets its lending conditions. Mobiasbanca expressed interest in a mixed initiative of credit guarantee schemes, led by the government. The bank believes that borrowers should be given incentives, as is the case with the grants provided by IFIs if they meet their obligations. The bank stresses that the difficulties in securing a loan are manifold.

Recent higher taxation has motivated firms to under-report their earnings, which results in weaker accounts being presented to the banks, which in turn lend less. The bank does not consider that the current legislation and policies hinder its activity and that the limitations of access to finance are due to the economic and political situation in Moldova, combined with SMEs having a small domestic market and limited propensity to export.

Moldova Agroindbank (MAIB)

MAIB is the largest commercial bank in Moldova, with a portfolio covering both corporate and retail banking. The retail component covers individuals, micro enterprises and SMEs, especially those operating in rural areas and active in agriculture and agribusiness. At the moment, the bank has around 5 000 SME clients to which it lends around MDL 3.5 billion (approximately EUR 210 million). The bank also finances start-ups and spin-offs.

Around MDL 2 billion (EUR 120 million) of the bank's SME financing comes from IFIs such as IFAD, the World Bank, EIB, the International Finance Corporation (IFC) and the EBRD. SME credit lines from IFI funds differ from those financed by the bank's own resources: the interest rate is better (ranging from 8.5% to 11% compared with the market rate of 11% to 16.5%), the maturity of the loan is longer (up to 10 years compared with a maximum of 5 years on the market), the grace period is more generous (up to 12 months), the loan charges and fees are lower (on average 1% of the value of the loan, compared with 2% in general) and some credit lines also have a grant component.

SMEs can take out loans for both investment purposes and to provide working capital. Working capital loans are provided with a maturity of up to 36 months, with an average of 24 months in practice. Loan processing takes around a month from the moment all the paperwork has been submitted (shorter for smaller loans). MAIB stresses the quality of its portfolio as one of its strong points: the current credit risk is low at 4% to 5%, especially when set against the 8% requirements set by some IFIs. Overall, MAIB believes that the current interest rates are not a barrier for SME access to finance; it is rather the limited financial literacy and the high collateral requirements (140% to 160%).

ProCredit Bank

The ProCredit Group comprises 22 financial institutions providing banking services in transition economies and developing countries. ProCredit Bank S.A is an international bank with 100% foreign capital and with shareholders exclusively from Germany and the Netherlands: ProCredit Holding, Germany (84.91%); KfW, Germany (10.85%); and the DOEN Foundation of the Netherlands (4.24%).

The focus of ProCredit Bank is on micro, small and medium-sized enterprises. During the crisis period, the bank decided to exclude micro enterprises and instead extend its credit portfolio to agribusiness clients (which now constitute 20% of its customers). The bank is lending from its own resources and resources attracted directly from IFIs including the EBRD, ProCredit Holding, KfW and the DOEN Foundation.

The bank's credit portfolio is USD 170 million, of which USD 120 million is concentrated on the SME sector, which numbers around 11 000 clients. The quality of its credit portfolio is better than the average and the credit risk is estimated at 3%. The average loan offered to SMEs is USD 7 000-8 000. The interest rates are 1.5% higher than the average on the credit market, due to the fact that the bank offers clients an individual consultant. The commission for the loan is 1-3% of the amount lent.

ProCredit Bank offers fixed asset loans with a maturity of up to 60 months (up to 10 years in exceptional cases) and working capital loans with a maturity of 36 months (up to 48 months in exceptional cases) for the development of the business. The bank offers a flexible system of collateral. Almost any property may serve as collateral for the offered credit. Collateral is only 110% of the amount of the credit, whereas the minimum collateral requested by banks is generally 140%. Loans of up to MDL 150 000 are offered without collateral.

Victoriabank

Victoriabank, established in 1989, was the first commercial bank in Moldova. It was the first bank to bring automated teller machines (ATMs) to Moldova, initiating the development of the banking system. It continues to be a leader in the implementation of new technologies. Victoriabank provides different type of banking products and services for legal entities, such as loans, deposits, payroll project and lines of credit, as well as currency and securities operations.

The bank offers medium-term loans for entrepreneurs and small and medium-sized private enterprises in rural areas, with maturity of up to 24 months, mainly for working capital. It also offers investment loans, which can be for up to 36 months. The maximum amount of a sub-loan will be equal to the equivalent EUR 200 000 in Moldovan lei for every eligible beneficiary. These are issued for a term of up to seven years with a grace period of up to two years, based on the payback period proposed for funding. The bank offers corporate loans with an interest rate of 15% annually for loans in Moldovan lei (9% for euro loans).

Victoriabank has an SME portfolio of MDL 1.25 billion (approximately EUR 70 million). This includes MDL 800 million from its own funds and MDL 250 million from Credit Lines Directorate. Their loan conditions differ based on the source of funds, with better conditions for loans based on funds from the Directorate. The interest rate is between 11% and 12% for loans in Moldovan lei and between 8% and 9.5% for euro loans, with charges of up to 1% (to be soon increased by 0.25%). The loan maturity is two to three years for loans from the bank's resources and up to seven years for loans from external resources. On average, loans for SMEs are between EUR 50 000 and EUR 60 000. The bank always requires collateral, at an absolute minimum of 70% of the loan value, and it is already accepting second degree collateral. Bank representatives admit that it takes the bank a long time to process applications, but justified the situation by describing the generally poor quality of applications, which often have to be returned for improvement. Victoriabank does not target any specific sector for SMEs, preferring to focus solely on the applicant's financial position. The bank maintains a 7.8% portfolio risk.

Table 3. Banking institutions, 2013

Bank	Banca Sociala	FinComBank	Mobiasbanca	Moldova Agroindbank (MAIB)	ProCredit Bank	Victoriabank
Bank's total assets	EUR 201.2 mn	MDL 1.7 bn	MDL 2.2 bn (EUR 130 mn)		USD 170 mn	
Total credit portfolio	EUR 130 mn	MDL 870 mn	MDL 1.7 bn			
SME credit portfolio			MDL 500 mn (EUR 30 mn)	~MDL 3.5 bn (~EUR 210 mn)	USD 120 mn	
Source of credit	- IFIs: EBRD, EFSE	- Internal resources - IFIs: OPIC	- Internal resources - IFIs: EIB, EBRD, World Bank, IFAD	- Internal resources (MDL 1.5 bn) - IFIs: IFAD, World Bank, EIB, IFC, EBRD (MDL 2 bn)	- Internal resources - Foreign capital from shareholders: ProCredit Holding, KfW, DOEN Foundation, - IFIs: EBRD	
Number of SME clients				~ 5 000	~ 11 000	
Type of SME clients				Micro-enterprises & SMEs, esp. in rural areas & in agriculture & agribusiness; also start-ups & spin-offs	SMEs, during the crisis the bank decided to exclude micro enterprises and instead extend credit to agribusiness	Medium-term loans for SMEs and entrepreneurs in rural areas

Costs for reviewing loan application		-Physical persons: 100 MDL - Corporate persons: up to MDL 3 000				
Time for reviewing loan application (after submission of all documents)		- Micro-credit: 3 days (min. documentary requirements, visit to the place) - Normal credit: 3-5 days - Average review period is 2 weeks		Approximately 1 month, shorter for smaller loans		
Interest rates	8 - 12.6%	- Standard loan: MDL 10-14%; EUR 8-11% - Micro-credit 14-18% - Loans from special resources 5-8%	- Funding from own resources: MDL 9-14%; EUR 6.9-9% - Funding from IFI resources: MDL 7.5-12.5%; EUR 5.4-7.5%	- Funding from own resources: 11-16.5% - Funding from IFI resources: 8.5-11%		MDL 15% EUR 9%
Credit volume		- Minimum MDL 500 - Maximum MDL 38 mn				Maximum EUR 200 000
Credit maturity	Up to 8 years	- Normally 5 years, 6-7 years also possible	- Working capital: up to 36 months -Investments: up to 5 years	- Working capital: up to 36 months Investments: up to 10 years	- Working capital: up to 36 months (in particular cases up to 48 months) - Fixed asset loans: up to 5 years (in particular cases 10 years)	- Existing loans: 24 months -Investments: up to 36 months - Sub-loans: up to 7 years
Grace period				Up to 1 year		Up to 2 years
Commission charges		- Standard loan: 2% - Short-term loan: less than 2%		- Funding from own resources: 2% - Funding from IFI resources: 1%	1-3%	
Collateral requirements		- No collateral requirements for loans up to 75 000 MDL (~EUR 4 600) - Real estate normally used for collateral	- Over 70% of a loan is secured mortgage collateral and around 15% with working capital and existing stock. The use of 2nd grade collateral is very limited	- 140% - 160%	- 110% of the amount of the credit - No collateral requirements for loans up to MDL 150 000 - Most property may serve as collateral	
Credit risk for SME assets			4.8 - 5%			
Credit risk for total portfolio			5.1%	4 - 5%	3%	

Sources: banks' annual reports & interviews with bank officials. OPIC = Overseas Private Investment Corporation

Credit Guarantee Fund

Third-party loan guarantees can also be used to improve access to credit. ODIMM operates the public Credit Guarantee Fund, created in 2004. It offers six different credit guarantee products targeting a variety of groups such as young entrepreneurs. Another private credit guarantee fund was set up in 2006, and is run by CreditInvest. It was set up by seven local banks, one microfinance organisation and one public association. Both of these guarantee schemes, however, are underused because they only cover 50% of the loan amount, which appears to be too low.

3.2 Multinational financial institutions

The European Bank for Reconstruction and Development (EBRD) is one of the IFIs actively lending to SMEs through commercial banks. The EBRD currently provides six credit lines for SMEs totalling around EUR 30 million per year. It also has a trade facilitation programme and an energy efficiency credit line with a grant component, the Moldovan Sustainable Energy Financing Facility (MOSEFF), all offered through six local partner banks. The EBRD concentrates its credit lines on SMEs and excludes start-ups; in practice, most beneficiaries are medium-sized enterprises. It has other direct investments in the country which were not discussed as they were unrelated to SME access to finance.

Overall, the problem of SME access to finance in the Republic of Moldova has to be placed in the context of limited business opportunities, due to low levels of domestic demand, limited exports, lack of infrastructure and corruption. The EBRD's perception is that the difficulties in accessing finance are on the SME side. It identified a mixture of barriers, particularly the lack of business readiness among SMEs which have limited financial literacy and poor management skills. Poor accounting practices make it difficult to prove the worth of a business to commercial banks. An underdeveloped local financial market also leads to high interest rates

Furthermore, current legislation requires the establishment of separate business entities for different activities, which unbundles businesses and prevents the consolidation of accounts when trying to get a loan. On the part of commercial banks, credit officers do not always perform well due to insufficient financial literacy and incentives that tie their pay to performance measured by the size of loans given.

Finally, the EBRD mentioned that there is insufficient co-ordination and direct dialogue between the government, SMEs and commercial banks. The EBRD suggests discussing the issue further with other IFIs and donors, such as the IFC and the United States Agency for International Development (USAID).

European Investment Bank (EIB)

The European Investment Bank (EIB) is another IFI lending to SMEs through commercial credit lines. The bank considers SMEs to be the engine of Europe's economy however, it is aware that smaller businesses in the area face particular difficulties in accessing finance, particularly since the crisis. Therefore, they have increased their commitment substantially since 2008. Their support has added impact by encouraging other private banks to continue lending, expand their portfolios and pass on advantages to businesses. All types of investment by smaller businesses are eligible for favourable EIB loans. Support is channelled through partner networks.

The EIB is strongly committed to the support of the sustainable economic development of the country in the context of the European Union's initiatives with its eastern partners. The bank has two credit lines currently active in the Republic of Moldova. The first is worth EUR 20 million, with Société Générale Group's subsidiary in Moldova, Mobiasbanca, acting as a financial intermediary. The second is worth approximately EUR 90 million and is operated through Erste Bank.

The first EIB credit line is dedicated to finance projects promoted by SMEs and larger companies with average capitalisation ("mid-caps"). The objective is to support the local economy through the provision of long-term financing in particular to small and medium-sized enterprises and mid-cap companies. Its mandate prioritises fields such as local private-sector development, development of social and economic infrastructure, and climate change mitigation and adaptation. Projects in these fields carried out by eligible promoters of any size and ownership can also be funded, provided that financing them does not exceed 30% of the overall EIB loan amount.

At least 70% of the credit line operated by Erste Bank must be dedicated to SMEs, and up to 30% is for small and medium-scale energy/environment projects promoted by mid-caps and public entities through the Erste Bank Group's subsidiaries in Ukraine and Moldova. The objective is to finance small and medium-sized projects carried out by small and medium-sized enterprises, mid-caps and public entities.

International Finance Corporation (IFC)

The International Finance Corporation (IFC) is the private-sector arm of the World Bank Group and is headquartered in Washington, DC. The IFC co-ordinates its activities with the other institutions of the World Bank Group but is legally and financially independent. Its 178 member countries provide its share capital and collectively determine its policies.

The mission of the IFC is to promote sustainable private-sector investment in developing and transition countries, helping to reduce poverty and improve people's lives. The IFC finances private-sector investments in the developing world, mobilises capital in the international financial markets, helps clients improve social and environmental sustainability, and provides technical assistance and advice to governments and businesses.

Moldova became a member of the IFC in 1995. As of 31 July 2012, the IFC's portfolio in Moldova stood at USD 83.5 million. The IFC is focusing its investment services on increasing access to finance by supporting the development of local financial institutions, especially ones that concentrate on small and medium-sized enterprises and agribusiness.

It has an active investment in Eximbank, consisting of a senior loan (a loan that holds legal claim to the borrower's assets above all other debt obligations) of up to EUR 20 million with a proposed maturity of up to five years, for further lending to SMEs. In the current market environment, the IFC is supporting Eximbank with long-term financing, sustaining the bank's efforts to offer high-quality financial services to the SME sector, which has a high growth potential. The IFC investment is an A loan for IFC's own account, with the aim to support increased access to finance for enterprises, and support economic activity and job creation.

IFC has also worked with Moldova Agroindbank since 2010, providing it with a USD 15 million loan to support its efforts to expand lending to small and medium-sized businesses in the rural areas. In 2012, it signed an agreement with the bank to help it improve its risk management and non-performing loan monitoring systems, enhancing the bank's operational efficiency and its ability to lend to small and medium-sized enterprises.

IFC also provided a financing package to Mobiasbanca, consisting of a USD 5 million loan for lending on to small and medium-sized businesses. This loan is intended to help Moldova's fifth-largest bank increase its volume of financial services to small and medium-sized enterprises, which often lack access to long-term funding.

Multilateral Investment Guarantee Agency (MIGA)

Moldova has been a member of the Multilateral Investment Guarantee Agency (MIGA) since 1993. MIGA has a strategy of promoting investments into countries eligible for concessional lending from the International Development Association and South-South investments.

On November 2012, MIGA issued a guarantee totalling EUR 4.75 million (approximately USD 6.1 million) covering a shareholder loan of EUR 5 million by Raiffeisen Bank S.A. of Romania to I.C.S. Raiffeisen Leasing S.R.L in Moldova (RLM). This loan is aimed at enhancing the capacity of RLM to provide operating leases for motor vehicles, machinery, and equipment in the Moldovan market.

MIGA provided earlier support for RLM's start-up and expansion. It issued a guarantee of USD 7.34 million to Raiffeisen Bank covering its shareholder loan to RLM in 2008. Half or more of the total number of borrowers supported by this investment were expected to be small and medium-sized enterprises.

On 2010, MIGA also issued a guarantee of USD 4.1 million to ProCredit Holding (PCH) covering its investment in its subsidiary in Moldova. The coverage is for a period of up to ten years against the risk of expropriation of funds for mandatory reserves held by the subsidiary in the central bank of its jurisdiction.

MIGA's support will help PCH optimise its capital management across its 21 banks, allowing it to direct equity to subsidiaries with the greatest need. These banks will be able to offer additional financial services to very small, small and medium-sized enterprises at a time of economic challenges. Supporting productive small businesses will help stimulate growth, generate employment, and reduce poverty

The projects were expected to contribute to the development of the financial sector in Moldova by improving access to finance, particularly to segments of the economy that were currently under-served. The shareholder loan should allow RLM to start its leasing operations and contribute towards meeting the rapidly growing demand for leasing services in Moldova.

Both projects were aligned with the World Bank Group's Country Partnership Strategy for Moldova and assistance strategy that emphasised the need to develop and expand the private sector, particularly SMEs, and to broaden financial sector intermediation in the country, enhance competitiveness of the country's enterprise sector, encourage more investment activity, and promote the expansion of small and medium-sized enterprises.

3.3 Non-bank financial institutions

The National Commission for Financial Markets (NCFM) monitors the non-banking financial sector in Moldova. The microfinance landscape is composed of saving and credit associations (SCAs) and microfinance institutions (MFIs).

There are 73 MFIs in the Republic of Moldova, with total assets worth MDL 1.6 billion. The top 10 MFIs hold about 80% of the total assets. They are mostly urban but not necessarily based in Chisinau. They compete with commercial banks, though they are not allowed to take deposits from savers. The loans from MFIs to SMEs cover a balanced mix of sectors and in 2011 were on average worth MDL 30 000 (approximately EUR 1 800). Because of the lack of collateral, the interest rates on loans are significantly higher than those offered by commercial banks. Loans have a short maturity, usually less than one year. The MFI sector has experienced significant growth in terms of number, volume of assets, credit portfolio, and attracted resources in the last 8 years.

There are 361 licensed SCAs in the Republic of Moldova with assets totalling MDL 400 million (approximately EUR 24 million). 80% of loans are granted to SMEs in the agricultural sector and in 2011 the average loan was worth MDL 8 000 (EUR 480). SCAs are allowed to attract funding and to hold deposits but only from their members. SCAs can hold one of three different categories of licence: A, B or C, and are also subject to territorial requirements. SCAs with a category A licence are not allowed to attract deposits, only to re-credit. SCAs with a category B license are organised at district levels and can accept savings from their members. The largest SCAs would need a category C licence, with total asset requirements of MDL 20 million (EUR 1.2 million) and at least 2 000 members. SCAs are only allowed to offer credit to legal persons if they hold a category C licence. There are currently 293 category A SCAs, 68 category B SCAs and no category C SCAs. Total assets are approximately evenly split between the category A and B SCAs. Survey data by the NCFM suggests that their interest rates are 4 points higher than commercial banks. The difference is due to the higher cost of attracting deposits and because the loans do not require collateral.

There are also 25 leasing companies registered in the Republic of Moldova. The top ten hold 90% of the market share, of which the four largest, MAIB Leasing, Total Leasing, Express Leasing and Raiffeisen Leasing, control 70%.

Prime Capital

Prime Capital is a microfinance institution with foreign capital, specialised in mortgage lending and business loans. Founded and owned by New Century Holdings (NCH Advisors), it began operating in 2006, becoming the first mortgage company in Moldova and later branching out into real estate development. Prime Capital has its headquarters in Chisinau, has three local branches in Edinet, Balti and Cahul, and has 60 employees.

Its current offering includes loans for SMEs, mostly designed to support investment specifically in construction and real estate development, with a duration of up to ten years. Some loans cater to enterprises needing working capital, with loans with a maturity of up to five years. Its current loan portfolio is EUR 23 million, 40% of which are loans to SMEs. These loans carry interest rates between 10% and 16%, with the lending being done in US dollars. The process is quick, taking between three days to a week. It charges between MDL 500 and MDL 1 000 to examine applications and commissions are up to 2.85%. Loans average EUR 17 000 and are given to SMEs from a diverse range of sectors. The preferred collateral is land and buildings, but for loans up to EUR 5 000 no guarantees are required. The credit risk of the portfolio is currently at 8%.

As Prime Capital accounts for 25% of its market, it welcomes further regulation for the microfinance landscape. It believes that the lack of transparency and hidden costs of small microfinance institutions deter customers. Prime Capital also stressed customers' problems with financial literacy.

Rural Financing Corporation

The Rural Financing Corporation (CFR) is a significant microfinance actor in Moldova, with a part of its portfolio targeted at micro and small enterprises in rural areas. The CFR was established in 1997, is co-owned by savings and credit associations (SCAs) and caters especially to farmers and rural entrepreneurs. The CFR has two types of operations: lending to SCAs, which in turn lend to their members, and lending directly to micro and small enterprises.

Lending to SCAs is mainly funded from seasonal loans and co-financed from other sources. The CFR provides unsecured loans of MDL 8 500 on average (approximately EUR 500) at interest rates ranging from 13.8% to 14%, with charges and fees of 1%. Its current portfolio for these operations is MDL 85 million (approximately EUR 5 million).

Direct lending started in 2000, as a result of the CFR's lending to SCAs, and it caters to "graduates" from its previous operations. Loans are worth EUR 12 000 to EUR 15 000 on average and are secured, with similar interest rates to the SCA loans. Charges and fees are higher, ranging from 1% to 3%, with an average of 2.5%. The current portfolio is MDL 143 million, serving over 1 200 micro and small enterprises.

Despite a good record and consistent high demand, the CFR finds it difficult to attract further funding and compete with commercial banks. Overall, the CFR perceives the barriers to access to finance for SMEs to be a combination of high collateral requirements, too high risks, financial illiteracy, lack of start-up money and the general "shadow" economy in Moldova.

Capital Leasing

Capital Leasing Ltd is a leasing company which provides lease financing to customers. It sees many advantages to leasing, including allowing companies to renew fleets and technological equipment, reduced insurance and administration costs, and the flexibility offered by a lease financing. For legal persons, leasing can be very attractive because of the reduced time for registration, insurance, inspection and evaluation.

90% of Capital Leasing's clients are SMEs. Mostly they lease cars, but equipment, agro-technology and real estate are also available for leasing. The leasing interest rate is 12% (for euro transactions). Capital Leasing borrows money at 8%, primarily from Moldovan banks. Loans from internationally owned banks are limited. The credit risk is close to zero as all credits have been paid in the last three years. Portfolio growth is 15% to 20% per year, as equipment has good potential. If all credit applications were approved, the estimated growth could be a minimum of 20%. Capital Leasing feels new legislation on leasing is required to enable credit history for leasing companies.

Raiffeisen Leasing

I.C.S. Raiffeisen Leasing SRL is part of the Austrian Raiffeisen Banking Group and it is owned by Raiffeisen Leasing IFN SA in Romania, which provides all the funding. It has been operating since 2008. In total, 27 leasing companies are active in the Republic of Moldova, but the top ten account for 90% of leasing activity. Raiffeisen Leasing, together with Maib Leasing, Total Leasing and Express Leasing account for 70% of the market. These four companies are members of the Leasing Association (Asociatia de Leasing), which is pushing for more regulation and monitoring of leasing in Moldova, similar to other markets in which Raiffeisen Leasing is operating.

The bulk of Raiffeisen Leasing's portfolio is for automobiles (60%), but it also leases equipment and machinery. The leasing process is structured around the group's internal rules and is aligned with other markets. The company's focus is on SMEs, which at the moment account for more than 60% of its portfolio. Raiffeisen Leasing offers two products: a classic leasing option (80% of its activity) and a loan-like option (20%), through which agricultural producers can obtain funding for equipment. The interest rate varies between 9% and 12.5%, with rates for SMEs usually closer to the upper end. Charges are up to 2% and the maturity is usually around 3 years. The application process requires fewer documents than for bank lending and it is much shorter, with most customers completing the leasing process in one week. The credit risk of the portfolio is very good at 2%, due to a degree of flexibility with late payers.

The representatives of Raiffeisen Leasing highlighted several key aspects of the leasing market in Moldova. First, they perceived the market as insufficiently regulated and monitored, especially in terms of transparency and prudential aspects, such as capital and liquidity requirements. Further regulation could support healthier competition, in particular because smaller players are inclined to be less transparent with their clients, who are deterred from leasing and turn to bank borrowing. Leasing is also less popular because, due to the issue of ownership, potential customers cannot benefit from the value-added tax (VAT) exemptions associated with bank credits. Raiffeisen Leasing stressed that leasing accounts for only 2% of the financial sector in Moldova, compared to 30% in the rest of Europe.

3.4 Conclusions

This chapter has reviewed the current sources of external finance providers to SMEs in the Republic of Moldova and details the experience of key finance providers to SMEs of lending to the SME sector. External finance is predominantly supplied by commercial banks. The banking sector is relatively small in international terms. The sector is fairly concentrated, being dominated by five large banks, and the banks largely serve urban areas. Several international financial institutions are present in the Republic of Moldova which offer financing for SMEs through Moldovan commercial banks.

Two credit guarantee schemes, one public and one private, are in place to reduce credit risk to banks and widen access to loans. However, these schemes are currently underused, probably because they only cover 50% of the loan amount.

Alternatives to bank lending include microfinance institutions (MFIs) and saving and credit associations (SCAs) as well as leasing companies although generally these are more expensive forms of finance for SMEs. The microfinance sector is also mostly urban and competes with commercial banks. In contrast, SCAs mainly lend to the agricultural sector.

Finance providers highlighted many reasons for the lack of SME access to credit. Several emphasised that SMEs seem to lack the capacity to access finance. Often they have limited managerial skills in finance and accounting which makes it difficult for them to successfully apply for credit. High collateral requirements and a lack of start-up money were also cited as problems. The EBRD considered that lack of financial literacy among credit officers in commercial banks, combined with incentives which discourage them from lending to SMEs, made it harder for SMEs to access credit. On the legislative side, SME access to finance is hindered by the current legislative requirements for the registration of separate business entities for different lines of business as this prevents the consolidation of accounts when applying for loans. Finally, the general economic situation in the Republic of Moldova has been highlighted as an obstacle to SMEs accessing finance, in particular due to its small domestic market, widespread shadow economy and limited exports.

Two main policy recommendations came through in discussions with finance providers. First, the EBRD recommends greater co-ordination and dialogue between the government, SMEs and commercial banks to help deal with the difficulties SMEs face in accessing finance. Second, several banks expressed interest in the implementation of mixed credit guarantee schemes, led by the government and the Central Bank.

CHAPTER 4:

ASSESSMENT OF NEED FOR FINANCING AMONG SMES

Complementing the macroeconomic, regulatory and banking sector aspects discussed in the previous chapters, this section of the report discusses the private-sector perspective on SME access to finance. In particular, it highlights the experience of Moldovan SMEs in accessing finance, with a focus on the role of finance in business development, the loan application process, the rate of success, the characteristics of the loans and the overall perception of firms about the financial system. These results are based on SME focus group discussions and two surveys conducted by the OECD in May 2013.

The first survey – covering 150 SMEs (but not micro enterprises) – focused on successful attempts to secure external finance in the past three years (2010 to 2012) from either the banking sector or the non-banking financial sector (microfinance institutions and savings and credit associations). The results were complemented by a second survey, which focused on the SMEs which have been unsuccessful at securing external finance in their most recent attempt, in the same timeframe and from the same sources.

4.1 Overview

The main findings of the survey indicate that:

- Successful applicants for finance were mostly small, urban and had been operating in agribusiness or retail for more than 10 years. The less successful firms were smaller, more oriented to manufacturing and are less exposed to international markets.

- Successful applicants on average needed finance worth 46% of their current turnover, an average of MDL 3.5 million (approximately EUR 210 000). They obtained on average 70% of the amount needed, with which they funded both investments and current operations equally. Their unsuccessful peers had higher needs relative to their turnover: 70% on average, equivalent to 1.9 million MDL (approximately EUR 120 000).

- On average, each unsuccessful firm attempted to obtain a loan almost three times (2.85), compared with 2.6 attempts made by each successful company.

- For the successful companies, commercial banks are by far the main source of loans. The loan process and conditionality differs in several key aspects between commercial banks, microfinance institutions, and savings and credit associations.

- The main barriers to access to finance are similar across the two groups: collateral requirements, interest rates and charges. Rather surprisingly, the successful SMEs also listed understanding the risks and costs associated with the crediting process as a barrier, while the less successful ones mentioned trust in financial institutions as a problem.

- While less vocal about what the government could do to support their access to finance, the surveyed SMEs stressed that financial institutions could simplify the application requirements, increase the transparency of their offer and of the crediting process, and generally improve the interaction between credit officers and SMEs.

4.2 Successful experiences with securing finance

Policy making can be better supported by understanding the successful instances when SMEs attempted to secure external finances. In particular, this section addresses several important aspects: the demographics of successful companies (broken down by sector), the importance of external finance and its uses, the characteristics of the loans obtained and the process itself, as well as the barriers to SME access to finance and potential proactive measures to overcome them.

Profile of successful SMEs

The demographics of the representative sample surveyed indicate several key characteristics of SMEs which were successful in securing a loan. First, although successful applicants came from all sectors of the economy, the retail (30%) and agribusiness sectors (24%) were the most heavily represented[1]. Second, more than half of the surveyed companies (56%) have been operating for more than 12 years and the vast majority are registered as limited liability or joint stock companies. Third, despite a balanced coverage of the entire Moldovan territory, most successful applicants were located in urban environments (77%), especially in Chisinau (45%). Fourth, the sample was dominated by small enterprises, those with 10 to 49 employees and a turnover of more than EUR 120 000 (~MDL 2 million). Fifth, regarding access to international markets, the results indicate around half of the sample imported goods, but only 17% were exporters. Of the exporters, the main destination markets were equally shared between Commonwealth of Independent States (CIS) and EU markets. In terms of export earnings, the sample is split between firms that have a limited international exposure (32% of companies) and firms which are mainly dependent on exports (44% of companies).

Role of finance for business development

SMEs consistently rank access to finance as one of the most important determinants of business development and the survey quantified the needs of the successful firms. On average, the value of external financing needed in the survey was MDL 3.5 million (approximately EUR 210 000), which amounted to 46% of their turnover for that year (Figure 4). Successful applicants on average obtained 70% of their financing needs in 2012 (Figure 5). As expected, firms with smaller turnovers had higher financing needs and so did companies active in the construction and agribusiness sectors, which registered the highest financing needs as a share of turnover (72% and 54% respectively). At the same time, the agribusiness sector firms were the least successful in covering their needs (obtaining only 59% of the finance they needed).

[1] The retail sector's contribution to GDP is around 14% and agro-business 13% in 2013 (National Bureau of Statistics, Republic of Moldova: http://www.statistica.md/category.php?l=en&idc=191).

Figure 4. Finance needs (% of turnover, 2012)

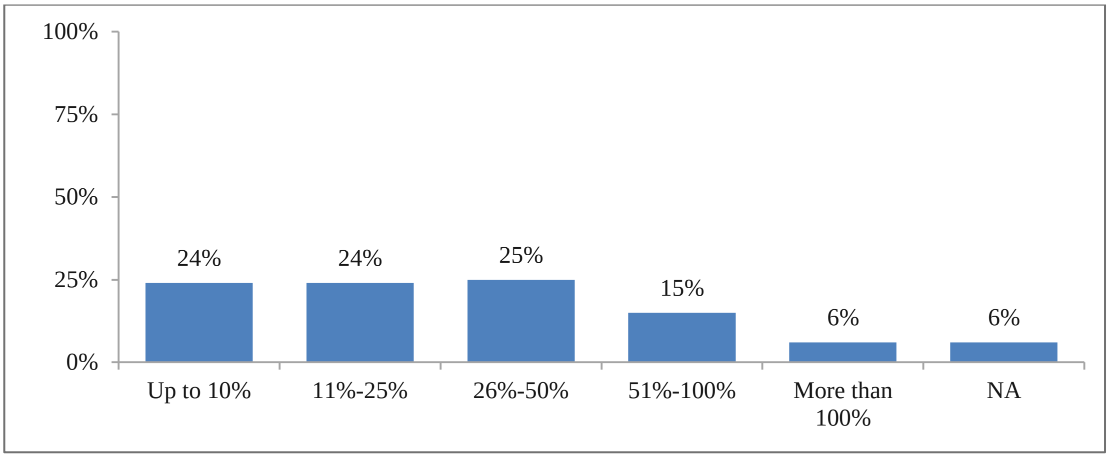
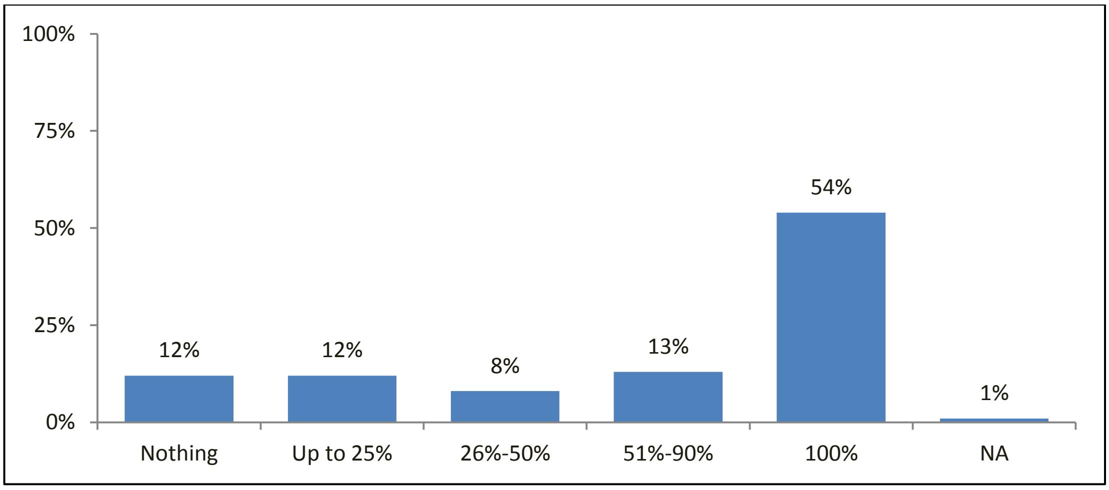


Figure 5. Share of financing obtained (% of finance needs, 2012)



The need for external finance was mostly divided between the covering operational activities (44%) and making investments (46%). The remaining 10% was needed to repay older debts or to finance exports (Figure 6). At the sector level, the proportions are different, although finance is still mostly needed to fund investments and overdrafts. For example, in the manufacturing sector SMEs use on average 59% of the funds for investments. At the other end of the scale, construction companies use 61% of their external finance to cover current operations (Figure 7).

Figure 6. Finance needs by type (% of finance needs, 2012)

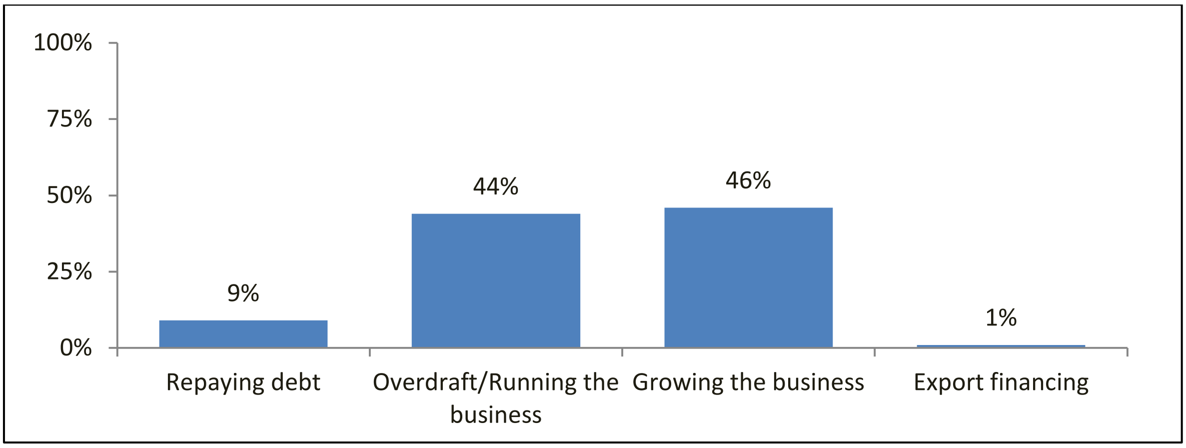
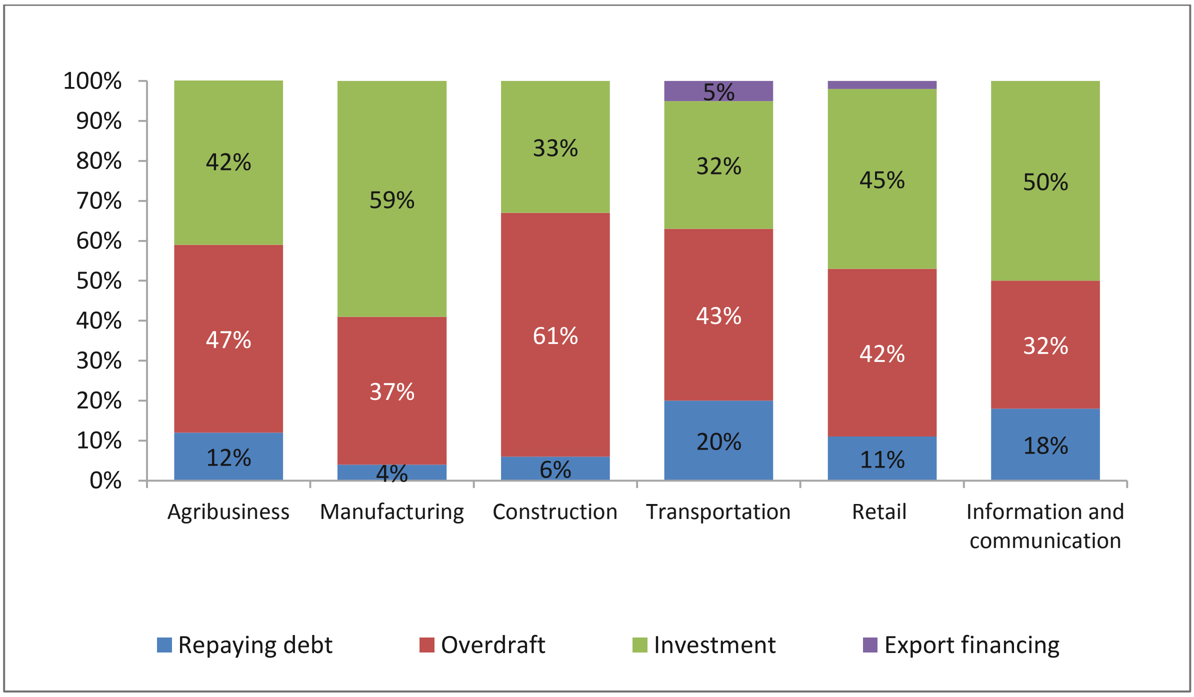
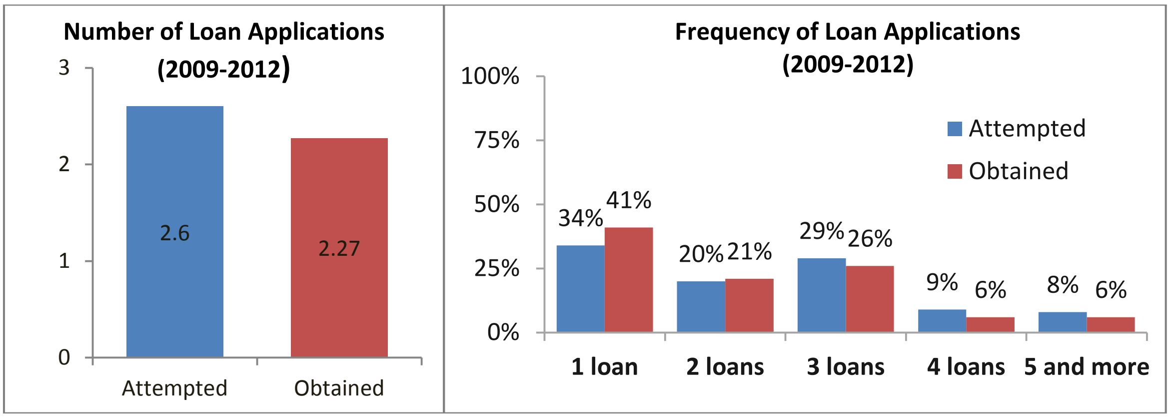


Figure 7. Finance needs by type and sector



Overall, loans represent one of the main sources of external finance for firms. In the three years from 2010 to 2012, the successful applicants attempted to obtain a loan 2.6 times on average and were successful 2.27 times on average, meaning 87% of applications were successful (Figure 8). These results indicate a rather high rate of success, even given the SME sub-group being considered were those who had been successful at least once. Furthermore, the importance of loans is shown by the fact that almost every second firm attempted to obtain a loan at least three times. Firms in the construction (67%) and transportation (75%) sectors had the lowest success rates. Another trend is that the more years in operations a firm has, the higher its success rate is in terms of obtaining a loan. On other hand, there have been very few grant applications among the firms in the sample, which most likely reflects the scarcity of such funding opportunities.

Figure 8. Number and frequency of loan applications



Experiences accessing finance

The survey asked respondents to describe the process and the characteristics of their most recent loan from either banking or non-banking financial institutions. Loans from commercial banks are by far the most common form of borrowing by SMEs as 90% of the surveyed companies had at least one loan from a banking institution. Only 13% of the firms in the sample have secured their loans from either a microfinance institution (MFI) or from a savings and credit association (SCA).

The loan application process differs in the case of each type of institution (Table 4). The process takes longest in the case of commercial banks (a total of 32 working days), when compared with the non-banking institutions: 26 working days for MFIs and only 13 days for SCAs. The cost of preparing the application is similar for banks and MFIs (around MDL 8 500 or EUR 530), but considerably lower for SCAs – only MDL 1 800 or EUR 110. Commercial banks lead when it comes to the charges associated with a loan as they charge on average 1.32% less of the value of the loan relative to the rates charged by non-banking financial institutions. Also, the credit bureau registration of applicants differs significantly between the three situations: half of bank applicants are registered, while only around a quarter of the non-bank ones are.

Table 4. Loan process in financial institutons

Loan process	Commercial banks	Microfinance institutions	Savings and credit associations
Pre-submission preparation	18 working days	12 working days	6 working days
Post-submission processing	14 working days	14 working days	7 working days
Cost of preparation	MDL 8 218	MDL 8 646	MDL 1 800
Charges (% of loan and value)	1.32% / MDL 23 371	1.7% /MDL 21 035	1.6% / MDL 22 680
Credit bureau registration	51.1% YES / 39.3% NO / 9.6% DK/NA	21.4% YES / 57.2% NO / 21.4% DK/NA	25% YES / 62.5% NO / 12.5% DK/NA

There were too few instances of loans from SCAs to draw clear conclusions on the characteristics of these loans, but the features of the loans from commercial banks and MFIs are revealing (Table 5).

First, despite similar financing needs, SMEs contracting loans from banks use the finance primarily as working capital and only secondarily for investments. The situation is reversed for loans contracted from microfinance institutions. Second, loans from commercial banks are on average higher than those from MFIs – MDL 2.3 million (~ EUR 145 000) compared with MDL 1.6 million (~EUR 100 000), in line with the banks' dominant position as a source of finance. Time-wise, the two types of loans have virtually identical maturity periods – approximately 2.5 years.

More significant differences emerge in the conditions offered by the two types of financial institutions. Firstly, the interest is noticeably lower when a loan is awarded by a commercial bank; MFIs charge an interest rate of 15.4% on average, 2.3 points higher. Secondly, collateral requirements (as a percentage of the loan value) are also significantly different: while MFIs expect a little more than the value of the loan (107%) to be backed up with collateral, commercial banks require guarantees worth 142% on average. The structure of the collateral is also different: almost half of all bank loans are secured with land and buildings, followed by machinery and equipment, while for MFI loans, machinery and equipment are used as collateral for more than half of loans. Also, while the grace period is similar – at around four months – the credit guarantee scheme support is different: 6% of bank loans are backed up by schemes, while 21% of the MFI loans are.

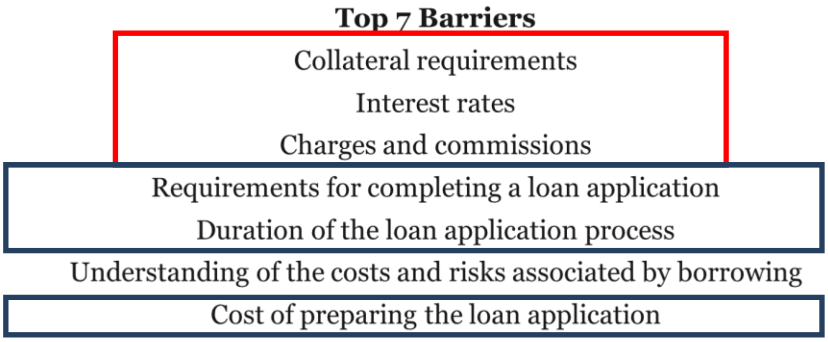
Table 5. Loan characteristics in financial institutions

Loan characteristics	Commercial banks	Microfinance institutions
Purpose	Primary: working capital Secondary: investment	Primary: investment Secondary: working capital
Loan value	MDL 2 347 603	1 632 571
Maturity	29.1 months	29.1 months
Interest rate	13.1%	15.4%
Collateral	142%	107.1%
Types of collateral	49.3% land, buildings under ownership 27.8% machinery and equipment including movables 10.2% accounts receivable and inventories 9.0% personal assets of owner (house, etc.) 1.6% other forms of collateral	36.4% land, buildings under ownership 54.6% machinery and equipment including movables 5.9% accounts receivable and inventories 3.2% personal assets of owner (house, etc.) 0% other forms of collateral
Grace period	4.3 months	3.9 months
Credit guarantee scheme	5.9% YES / 80.7% NO / 13.3% DK/NA	21.4% YES / 57.2% NO / 21.4% DK/NA

Barriers to SME access to finance

Respondents were asked to list the top five barriers (based on importance) for SME access to finance. The weighted results indicate concerns with collateral requirements, direct costs of loans and the loan application process (Figure 9). More specifically, the top three barriers concern the loan conditions and allow for limited government action. Other barriers – related to the application process and to the awareness of the real cost of borrowing – could be overcome with targeted initiatives.

Figure 9. Main barriers in accessing finance



Measures for improving SME access to finance

Respondents were also asked to suggest measures – both governmental and from the private sector – that could improve the access to finance environment in the Republic of Moldova. About two-thirds of the surveyed companies had difficulty coming up with any specific measures that the government could implement to improve the access to finance for SMEs. The responses they did give reflected concerns with the inefficient monitoring of financing institutions, imperfect legislation, weak credit guarantee schemes and lack of transparency about international donor credit lines. Respondents also suggest creating an information centre to provide companies with a better understanding of the credit process and the conditions associated to loans.

When it comes to the financial sector, the surveyed SMEs would like to see a simplification of the loan application process (especially the package of required documents), together with a reduction of the overall cost of preparing the documents and faster processing of applications. Companies would also welcome a closer collaboration with the banks, including creditor officers having a friendlier attitude, and better loan conditions for those SMEs with solid financials and sound credit histories.

4.4 Unsuccessful experiences with securing finance

When contrasted to the successful experiences, failed attempts to secure a loan from a banking or non-banking financial institution provide indications about the characteristics of the unsuccessful applicants, their specific needs for finance and their perceptions about the financial system.

Profile of unsuccessful SMEs

Companies that have failed to secure a loan in the past three years differ along three dimensions from their successful peers. First, the manufacturing sector (29% of firms) dominated the sample, compared with the successful companies which were concentrated predominantly in retail (30%) and agro-business (24%). Second, as already partially highlighted, the unsuccessful companies are smaller in size – both by turnover and by number of employees. Third, they tend to have a lower exposure to international markets – they are less likely to be importing and exporting and less of their earnings come from international trade.

Role of finance for business development

Rather unexpectedly, external finance plays a more important role for the companies which have failed to secure their latest loans (Figure 10). On average, the value of their external financing needs in 2012 was MDL 1.9 million (approximately EUR 120 000), which amounts to 69.5% of turnover for that year (significantly higher than the 46% share of successful companies). Also on average, just 10% of financing needs in 2012 were successfully obtained by this group of surveyed firms (Figure 11). In several instances, smaller firms recorded financing needs exceeding their yearly turnover.

Figure 10. Finance needs (% of turnover, 2012)

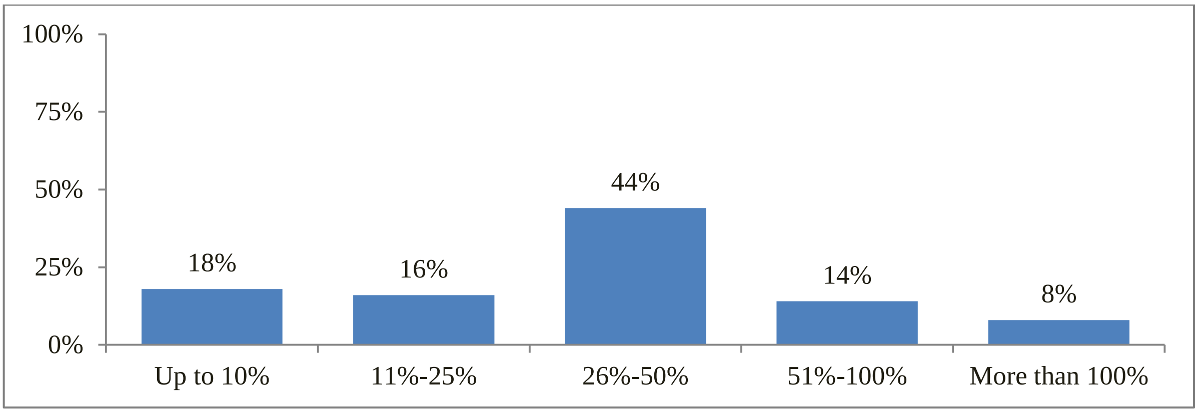
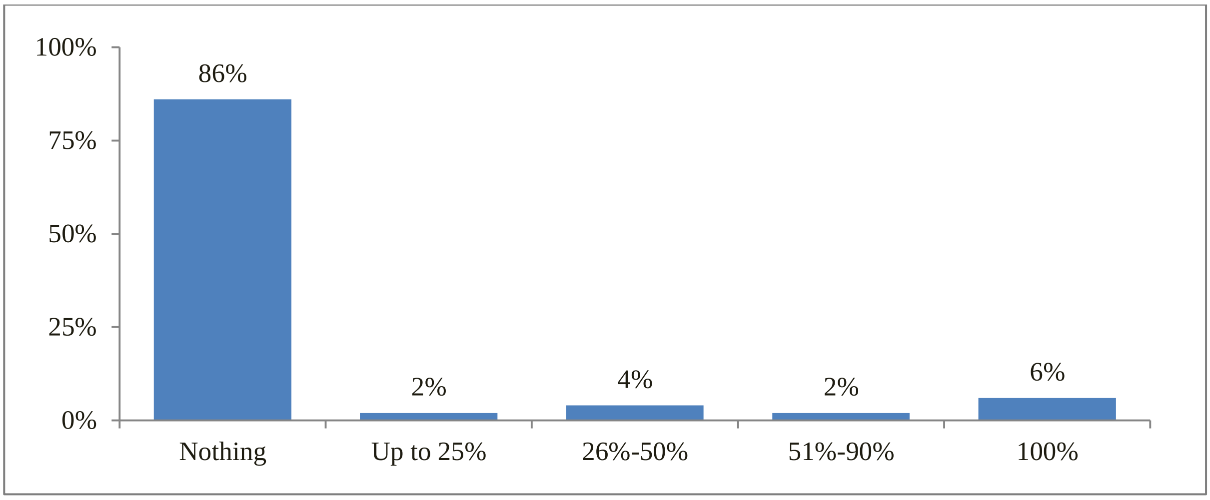


Figure 11. Financing obtained



In contrast with the successful group, the unsuccessful companies needed more than half of the external financing to fund investments and grow their businesses (Figure 12). One-third of the finance needs were to fund current operations and the rest to repay debts; no instances of trade financing were reported. The result holds across most sectors: with the exception of the agribusiness companies, all others would mostly use the external finance for investments (Figure 13). In two instances –

manufacturing and transport – two-thirds of funds were to be used for further developing the businesses.

Figure 12. Finance needs by type (% of finance needs, 2012)

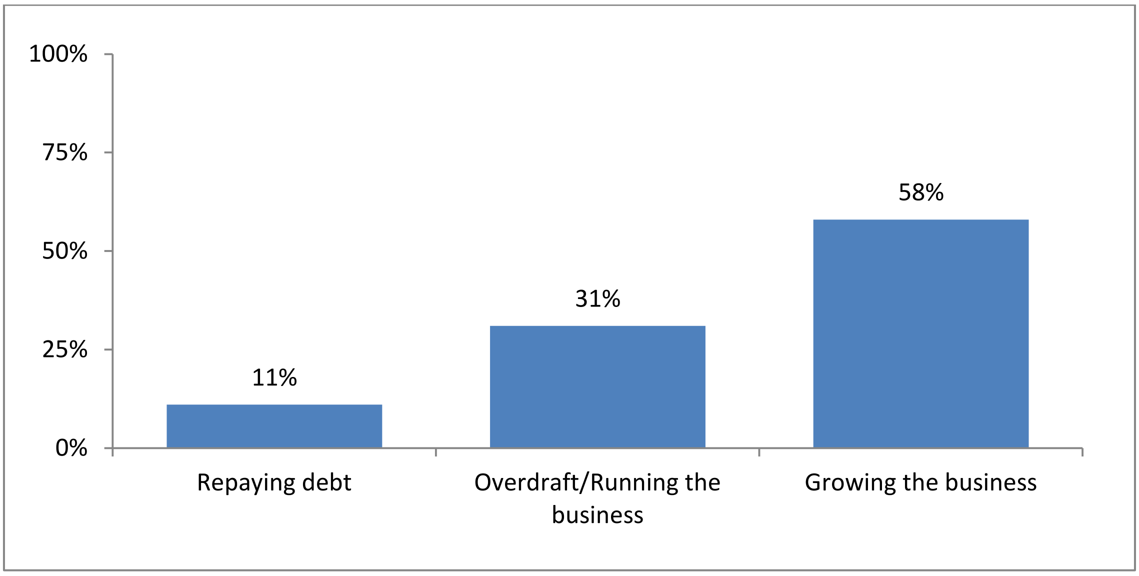
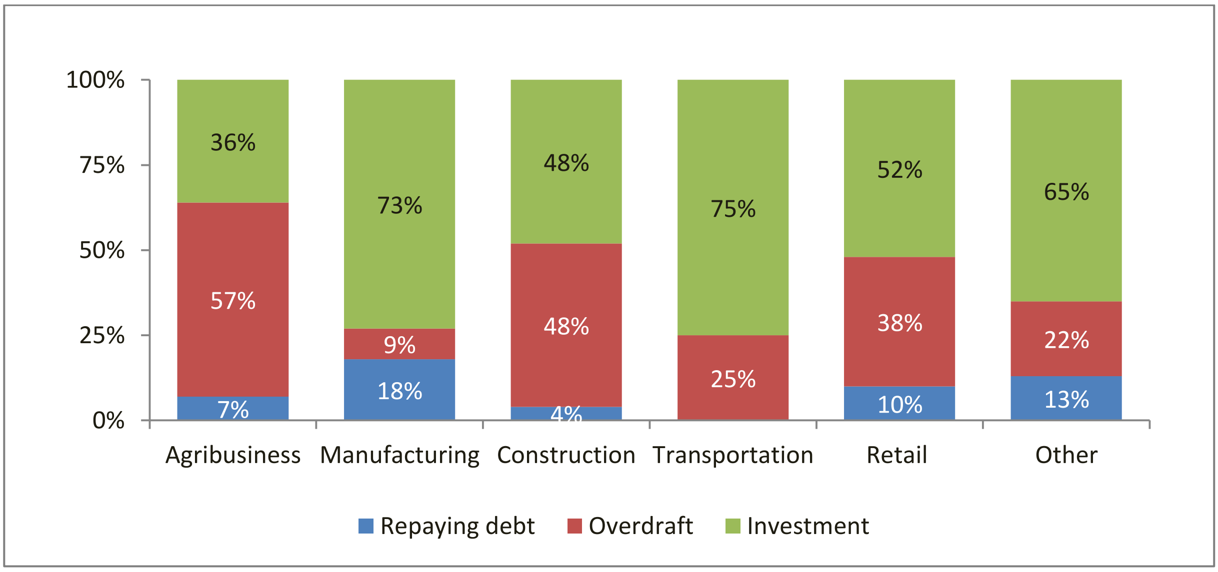


Figure 13. Finance needs by type and sector (%, 2012)



These financing needs are reflected in a more sustained effort by this group of companies to secure funds: on average, each firm attempted to obtain a loan almost three times (2.85), compared with 2.6 attempts made by the previous group. In very few instances did the companies manage to obtain the funding.

Barriers to SME access to finance

Despite their unsuccessful access to finance experiences, the surveyed companies do not stress any different barriers than their successful peers. The conditions of the loan – especially the collateral requirement and the interest rate – remain the dominant barriers, complemented by issues with the loan application process: the requirements for the request, the charges and the duration of the process. Surprisingly, this group does not report any concerns about understanding the real costs and risks associated with borrowing. The only significant systemic issue brought up is that of trust in banks and other financial institutions.

Measures for improving SME access to finance

Firms which failed to obtain finance also faced difficulties in suggesting measures the government could undertake to improve the access to finance environment. The few answers they gave revolved around improved legislation and monitoring and around further guarantees. On the other hand, firms proved more vocal in suggesting what banking and non-banking financial institutions could do. First and foremost, the respondents stressed the importance of a simplified package of documents for application, in line with their peers from the previous group. They also requested that other types of collateral be accepted more widely by banks and the value of different types of collateral should be more generously assessed. In addition, the companies would also appreciate a better relationship with the bank staff, especially regarding transparency and access to information about the banks' offer.

4.5 Conclusions

This chapter has presented an overview of the experience Moldovan SMEs had when trying to obtain external finance. Three key messages emerge from the two surveys and the focus group discussions. First, access to finance plays a significant role for business development and SMEs actively try to obtain external finance. Despite differences between small and medium sized companies and between sectors of activity, external finance is very crucial for businesses to fund their current operations or invest in their growth.

Second, the picture for the companies that have successfully obtained loans is positive: most of them have managed to secure multiple loans and cover almost all their needs of external finance. Still, the characteristics of the application process and the loan conditionality are tougher than they are made out to be in the discussion with financial institutions. In particular, firms reported that the entire process takes longer than desirable and the interest rates they reported were markedly higher than the figures provided by the banks and other financial institutions.

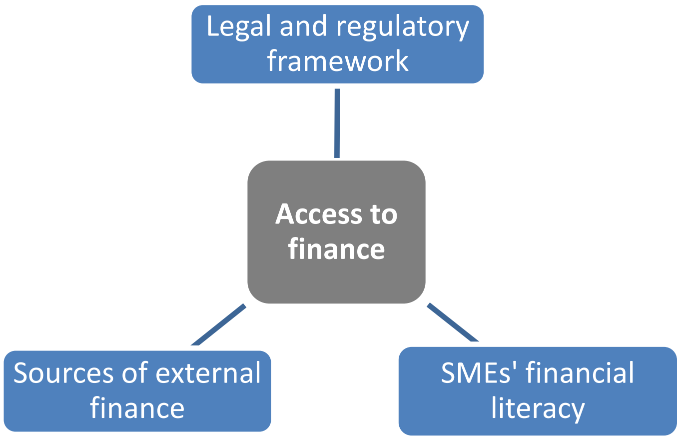
Third, smaller and particularly manufacturing firms, which tend to have greater financing needs, are most susceptible to unsuccessful financing attempts. Their perceived barriers do not differ significantly from those of successful applicants, an indication that the problem might lie with their business structure and operations and with the difficulties encountered in fulfilling the application.

CHAPTER 5

ENHANCING SMES ACCESS TO FINANCE: A POLICY ROADMAP

This chapter provides a roadmap for Moldovan policy makers to address gaps in the financial system for SMEs. It is built around three guidelines that aim to improve the regulatory framework, financial sources and SME capabilities (Figure 14). Each guideline is accompanied by a number of targeted measures.

Figure 14. Access to finance: three main pillars



Guideline 1: Enhance the legal and regulatory framework for the financial infrastructure

The supply, demand and efficient allocation of finance need to be founded on a stable macroeconomic environment and a regulatory framework which ensures a sound financial sector. The cost of lending to SMEs is a major barrier to enterprise development. It can be overcome through regulations which improve lenders' access to information on potential borrowers. Strong accounting standards, as well as well-developed credit bureaus and credit rating agencies, increase the ability of finance providers to judge the risks involved in lending to SMEs, thus facilitating the supply of credit to the SME sector (OECD, 2006). The Republic of Moldova has implemented legislation to reduce credit risk in the banking sector and has a legal framework for non-banking institutions: microcredit organisations, savings and credit associations and leasing companies. The government has introduced laws establishing credit bureaus and one credit bureau has been set up. However, policy makers need to make further improvements to the current legislation.

1. **Enhance the regulation of microfinance institutions and leasing entities.** The government should review the law on non-banking financial institutions and on leasing and endorse changes to improve information and transparency requirements (for example on ownership and price transparency), capital requirements (for example secondary guarantees), financial

reporting (for example auditing requirements), and standards for credit evaluation and risk management.

2. **Expand the coverage of credit bureaus.** The Credit Bureau, a private credit bureau, was established in 2011 and credit history data has been available since October 2012. Currently only commercial banks share the credit history of clients with the Credit Bureau. Efforts to incorporate information from non-banking financial institutions such as MFIs, SCAs and leasing companies, which will help SMEs to establish a complete credit history from the start and ease access to credit from commercial banks. Credit histories can be further enhanced by information from telecommunication companies on enterprises and individuals that are not debtors at any of the financial entities.

3. **Improve consumer protection around financial products.** Legislative regulation should be used to increase the transparency about the costs and conditions of loans - such as effective interest rates and commission fees - from both banks and non-bank financial institutions. This will also help to stimulate competition between financial institutions and protect customers. Prices from all institutions should be more publicly available, for example through the Central Bank webpage. This would allow customers to calculate the real cost of loans and to compare them across institutions. This would particularly benefit sole entrepreneurs, start-up firms and smaller enterprises.

4. **Broaden the range of what can be used as collateral.** To reduce the credit risk for banks and allow flexibility for enterprises new types of collateral should be introduced. Currently banks in the Republic of Moldova accept collateral (for example pledges, mortgages or bank deposits) as credit guarantees. The *Law on Collateral* (Republic of Moldova, 2001) no longer reflects market requirements and needs to be amended by including new types of collateral such as secondary guarantees, accounts receivables and warehouse receipts.

Guideline 2: Diversify the sources and types of external finance available

An economy's financial structure shapes the quantity and type of finance available for SMEs. The size of the financial sector, the type of institutions, and the terms and costs of loans to the SME sector all affect the ability of SMEs to access finance (OECD, 2006). Moldova's financial system is dominated by the banking sector. There are currently 14 licensed banks, 4 of which are branches of foreign financial groups, but the sector is fairly concentrated with the 5 largest banks holding two-thirds of the banking sector's total assets. Although there are microcredit organisations, savings and credit associations and leasing companies, commercial banks are the main source of external finance for SMEs and provide cheaper loans to SMEs than non-bank institutions. However, SME access to bank loans is restricted by certain characteristics of these loans, particularly the high collateral requirements and short grace periods. Furthermore, in rural areas access to banks is limited as branches are mainly located in urban areas.

1. **Encourage specific credit products for SMEs.** Products offered to SMEs are often similar to those offered to corporate clients. Banks have not outlined the differences between these two categories of clients and designed specific products for them. Diversifying the range of products and services offered exclusively to SMEs could ease access to finance and better meet the specific requirement of smaller enterprises. Banks need to develop a marketing

strategy targeting SMEs. The sort of product that could be offered to SMEs are: working loan capitals, overdrafts, revolving loans, domestic and overseas trade financing, investment loans, start-up loans, bank guarantees and rural and agricultural financing loans. Products could be associated with special services that will motivate clients to take them up. Banks could offer free consultancy regarding the financial activity of the company, or market research to benefit the client and help them manage their borrowed bank resources in an efficient way.

2. **Promote credit products, consultations and training.** The promotion of specific products is equally important. More than 70% of banks are located in Chisinau. Decentralising services by establishing branches and agencies in rural areas is essential, enabling banks to interact directly with clients and to understand their needs. It is also crucial to provide information and consultancy directly to potential clients, particularly in the rural areas, as financial literacy is still limited. Banks should focus on improving customer service through staff training in approaching and dealing with clients.

3. **Encourage extensions to grace periods.** Almost all banks structure their loans in such a way that entrepreneurs have to start making repayments within a very short time of receiving the loan. This means entrepreneurs have to generate profits instantly to meet these payments but this is often not possible since it can take time to generate profit. This is particularly the case for businesses at an early stage of development. One way to extend grace periods could be for international organisations such as the EBRD to offer more external sources of finance to commercial banks, earmarked for lending to SMEs. Such loans are usually cheaper and have a longer grace period.

4. **Improve credit risk management.** Consideration of credit risk management is essential in any discussion of SME banking, since one of the primary barriers to lending to SMEs has been the actual or perceived risk of default. Effective management of credit risk can be the gateway to successfully serving new SME markets. For Moldovan banks, risk management is already a critical function, but it becomes especially critical in a relatively new industry such as SME banking because there is less information on how to mitigate risks for this sector. The risks themselves are not unique; as in all banking, they include credit, market, strategic and operational risks. There are two main categories of risk to prioritise: credit risk and the risk of excessive costs involved in serving the client. Credit risk may be diminished by implementing measures such as:

    - *Understanding the SME market.* For instance, lenders could segment the SME market by risk profile, or enhance their predictive capabilities by gathering information on SME success factors.

    - *Develop products and services.* For example, lenders could accept innovative forms of collateral such as accounts receivable. They can prioritise the role of non-lending products such as deposit accounts and consultancy services to establish customer relationships and provide predictive data, or develop a loan pricing model that better reflects the client's risk profile.

- *Acquire and screen SME clients*. Lenders could use external data on SME financial performance such as credit bureau reports.

- *Manage information, staff and knowledge*. Staff should be better enabled to spot early signs of SME default, provide advisory services to assist SMEs in cash flow management and use portfolio data to customise models for statistical credit scoring.

5. **Promote the public credit guarantee schemes.** Currently the use of the public Credit Guarantee Fund is limited. Its coverage could be increased by extending the scope of co-operation with commercial banks but higher coverage rates also increase moral hazard: the greater the percentage of the loan the guarantor covers, the less incentive the banks have to properly assess and monitor the risk of the loans and the more attractive strategic default becomes for the borrowers. Rather than increasing the coverage rate, it may be possible to offer other financial incentives in addition to guarantees to encourage take-up of the scheme (OECD, 2009).

   Alternatively the establishment of a new risk-sharing facility could be considered. This would require an evaluation of the existing credit guarantee scheme and a feasibility study for a new fund to identify objectives, key features, risk management procedures, governance options and organisational structures of the scheme as well as potential sources of funding.

Guideline 3: Improve the investment readiness and financial literacy of SMEs

The two surveys of Moldovan SMEs into their experience in accessing finance (Chapter 4) found that firms considered the loan application process to be long and difficult to complete and that loan conditions are tough with high interest rates and collateral requirements. A lack of financial literacy may affect the ability of SMEs to submit compelling loan application forms. The following recommendations can be achieved through extensive information and education campaigns:

1. **Support SMEs in business planning and financial management.** Financial coaching can build the capability of Moldovan SMEs to develop sound business and investment plans and to prepare complete financial reports. Another example of such an initiative would be credit counselling on dealing with debt situations. There needs to be information on how to access these services and training and link enterprises to the appropriate donor and government programmes.

2. **Make information on the credit system accessible and transparent.** Information and training on financial sources available to SMEs, loan application processes and overall lending costs (including fees and interest rates) and their associated risks will help Moldovan entrepreneurs to understand the credit system. Credit education campaigns can build credit knowledge and encourage positive skills and behaviours. These measures can also help to build trust in financial institutions.

3. **Improve the ability of SMEs to access finance.** SMEs need to be able to provide banks with sound business plans and a holistic understanding of the financial system. Schemes should develop the capacity of SMEs to promote their business ideas and increase their ability to negotiate a loan with a financial institution.

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ANNEX: LIST OF INSTITUTIONS INTERVIEWED DURING THE FACT-FINDING MISSIONS

No.	Organisation	Address	Telephone	Fax	web
1	**Capital Leasing Company**				www.capital-leasing.md
2	**Credit Bureau**	49, Alexandru cel Bun str.	373 22210120	373 22210121	www.creditbureau.md
3	**Delegation of European Union to Republic of Moldova**	12, Kogalniceanu str.	373 22505210	373 22272622	http://eeas.europa.eu/delegations/moldova/index_en.htm
4	**EIB**				www.eib.org
5	**EBRD**	63, Vlaicu Pircalab str., 10th floor	373 22211614	373 22211585	www.ebrd.com/tambas/moldova
6	**FinComBank**	26, Puskin str.	373 22269903	373 22237308	www.fincombank.com
7	**Ministry of Economy, Directorate for SME Development**	6, Piata Marii Adunari Nationale str.	373 22250660		www.mec.gov.md
8	**Ministry of Finance, Directorate for Credit Lines**				
9	**Mobiasbancă – Groupe Société Générale**	81a, Stefan cel mare ave.	373 22256420	373 22541974	www.mobiasbanca.md
10	**Moldova Agroindbank**	9, Cosmonautilor str.	373 22224394	373 22228058	www.maib.md
11	**National Commission of Financial Market**	77, Stefan cel Mare ave	373 22859510	373 22859504	www.cnpf.md
12	**National Bank of Moldova**	1, Grigore Vieru Ave.	373 22409016	373 22228697	www.bnm.md
13	**Organization for SME Sector Development**	48, Serghei Lazo street, of. 313	373 22295741	373 22295797	www.odimm.md
14	**Prime Capital**	63/1, Vasile Alecsandri str.	373 22871111	373 22543043	www.primecapital.md
15	**ProCredit Bank**	65, Stefan cel Mare ave., of. 901	373 22836421	373 22836429	www.procreditbank.md
16	**Raiffeisen Leasing**				www.raiffeisen-leasing.md

17	**Rural Financing Corporation**	10/5, Ion Creanga str.	373 22595559	373 22595659	www.microfinance.md
18	**Saving and Loan Association Botna, from Costesti**	Costeşti village, r.Ialoveni	373 26892960		
19	**Sector Policy Budgetary Support Programme called "Economic Stimulation in Rural Area – ESRA".**	180 Stefan cel Mare bd, 13th floor	373 22293327	373 22293307	www.gfa-esra.md
20	**The World Bank, Moldova Country Office**	20/1 Puskin str.	373 22200706 (ext. 258)	373 22237053	www.worldbank.org
21	**Victoriabank**	141, 31 August 1989 str.	373 22576100	373 22234533	www.victoriabank.md

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Government of the Netherlands

With the financial assistance of the European Union