



# Promoting Exports and Supply-Chain Linkages in the Food Industry in the Republic of Moldova





Policy Insights

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**Please cite this publication as:**

OECD(2020), *Promoting Exports and Supply-Chain Linkages in the Food Industry in the Republic of Moldova*, OECD Publishing, Paris, [www.oecd.org/eurasia/competitiveness-programme/eastern-partners/Promoting-Exports-and-Supply-Chain-Linkages-in-the-Food-Industry-in-the-Republic-of-Moldova-ENG.pdf](http://www.oecd.org/eurasia/competitiveness-programme/eastern-partners/Promoting-Exports-and-Supply-Chain-Linkages-in-the-Food-Industry-in-the-Republic-of-Moldova-ENG.pdf).

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## Foreword

In 2018, the Government of the Republic of Moldova adopted the 2018-2020 Action Plan for the implementation of its 2012-2020 SME Development Strategy. The Ministry of Economy and Infrastructure requested the OECD's assistance in supporting the implementation of the Action Plan, with a particular emphasis on actions promoting integration of Moldovan SMEs into global value chains.

The assistance is being provided as part of a multi-country “*EU4Business: From Policies to Action*” project, implemented by the OECD in the Eastern Partnership, with the financial support of the European Union under its EU4Business initiative. The project is co-financed by the Slovak Republic.

The overall objective of the work is to build capacity in Moldovan institutions to implement and monitor the SME Development Strategy 2012-2020 and its Action Plan 2018-2020. In order to meet this objective, the project has focused on the following activities:

- Helping the government implement policies that promote the internationalisation of SMEs operating in the food-processing sector by: (i) fostering linkages between local food processors and retailers (supermarkets), and (ii) enhancing the capacity of local SMEs to directly access foreign markets;
- Strengthening public-private dialogue through regular meetings of a Working Group involving international experts, local stakeholders and the OECD under the umbrella of the Consultative Council for the Development of SMEs.

The main beneficiaries of this project are the Ministry of Economy and Infrastructure, the Organisation for Small and Medium Enterprises Sector Development (ODIMM), and other stakeholders involved in the implementation and monitoring of the SME Strategy and 2018-2020 Action Plan.

This note, was peer reviewed at the OECD Eurasia Competitiveness Roundtable on 17 June 2020. It focuses on supporting the integration of Moldovan food producers into global value chains by (i) promoting their international competitiveness and (ii) providing tailored support services including the implementation of a pilot programme for supply-chain linkages development.

The work has involved regular meetings of a public-private Working Group to determine priorities and identify gaps for the implementation of reforms and the rollout of a support programme. In addition, the OECD has carried out an enterprise survey, a private-sector focus group, and a series of interviews with representatives of the private sector. A description of the methodology can be found in Annex A.

## *Acknowledgements*

This report summarises the work carried out by the OECD Eurasia Competitiveness Programme (ECP) under the authority of the OECD Eastern Europe and South Caucasus Initiative Steering Committee, in consultation with the government of the Republic of Moldova and with the participation of the private sector and international organisations in the Republic of Moldova.

Representatives from several Moldovan ministries, government agencies, private sector organisations, and other stakeholders should be acknowledged for their active participation in the Working Group meetings and their availability to meet with the OECD team and share valuable insights for the development of this note.

In particular, the OECD would like to extend its gratitude to the representatives of the Ministry of Economy and Infrastructure: Mr Anatol Usafii (State Secretary), Mr Vasile Vulpe (Head, Economic Policy and Business Development Department). The OECD is grateful to representatives of the Organisation for Small and Medium Enterprises Sector Development (ODIMM): Ms Iulia Costin (General Director), Ms Oxana Paladiciuc and Mr Constantin Turcanu (Business Support Infrastructure Division), and Mr Eugenia Sili (Counsellor for Economic Issues).

Representatives of the private sector provided useful inputs to Working Group discussions and the report: Ms Mariana Rufa (Executive Director of European Business Association), Mr Segiu Harea (President, Moldovan Chamber of Commerce and Industry), Ms Natalia Calenic (Vice-President, Moldovan Chamber of Commerce and Industry), Mr Iurie Fala (Executive Director, Moldovan Fruit Producers and Exporters Association), Mr Vadim Rotaru (Head, Communication Department Metro Cash & Carry Moldova).

The European Union co-funded the project as part of the EU4Business initiative and its staff provided important guidance and support: Mr. Mathieu Bousquet (Head of Unit, DG NEAR, European Commission, Ms Kristi Raidma (Programme Manager, DG NEAR, European Commission), and the representatives of the EU Delegation to the Republic of Moldova: Mr Peter Michalko (Ambassador), Mr Marco Gemmer (Head of Operations Section), and Mr Gintautas Baranauskas (Deputy Head, Operations Section). The Slovak Republic co-funded the project and Mr Ján Oravec (State Secretary, Ministry of Economy of the Slovak Republic) provided valuable guidance and support.

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Very valuable administrative support was provided by Ms Eugenia Klimenka (OECD Global Relations Secretariat).



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## *Acronyms and Abbreviations*

AA	Association Agreement
ANSA	National Agency for Food Safety
BDR	business development reviews
BDS	business development services
CIS	Commonwealth of Independent States
DCFTA	Deep and Comprehensive Free Trade Agreement
EaP	Eastern Partnership
EBRD	European Bank for Reconstruction and Development
EU	European Union
EPA	Export promotion agency
EUR	Euro
HACCP	Hazard Analysis Critical Control Point
FDI	Foreign direct investments
GDP	Gross domestic product
GIZ	German Agency for International Co-operation
GVCs	Global value chains
ICT	Information and communication technology
ISO	International Organisation for Standardisation
ITC	International Trade Centre
KPI	Key performance indicator
MIA	Moldovan Investment Agency
MEI	Ministry of Economy and Infrastructure
MNE	Multinational Enterprise
NLP	National Linkages Programme
ODIMM	Organisation for Small and Medium-Sized Enterprises Sector Development
OECD	Organisation for Economic Co-operation and Development
SME	Small and medium-sized enterprise
SOE	State-owned enterprise
USD	US Dollars
TFIs	Trade Facilitation Indicators

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## *Key Indicators: Moldova*

<b>Indicator</b>	<b>Unit of measurement</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
GDP growth *	Percent, y-o-y	4.41	4.69	3.4
Inflation	Percent, y-o-y	6.36	6.57	3.05
Current account balance*	Percentage of GDP	-3.50	-5.74	-10.59
Total trade*	Percentage of GDP	87.64	85.64	84.29
Imports*	Percentage of GDP	55.33	54.54	55.00
Import growth *	Percent, y-o-y	2.81	11.00	8.88
Exports*	Percentage of GDP	32.31	31.10	29.29
Exports growth *	Percent, y-o-y	9.75	10.86	4.83
Net FDI inflows*	Percentage of GDP	1.17	1.60	2.73
Net FDI outflows*	Percentage of GDP	0.17	0.11	0.37
Personal remittances*	Percentage of GDP	18.09	16.95	16.06
Agriculture, value added*	Percentage of GDP	11.40	11.47	10.08
Industry, value added*	Percentage of GDP	22.24	21.87	22.68
Services, value added*	Percentage of GDP	53.97	53.20	53.73
Employment (agriculture)**	Percentage of total employed	33.70	32.34	36.18
Employment (industry)**	Percentage of total employed	17.14	16.65	16.5
Employment (services)**	Percentage of total employed	49.16	51.02	47.4
Unemployment**	Percentage of total active population	4.2	4.1	3.

Source: : \*World Bank (2019), *World Development indicators*; \*\* ILO (2019), *Ilostat*.

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## Executive Summary

Prior to the Covid-19 crisis, which will likely result in a recession in 2020, the Republic of Moldova recorded solid GDP growth, averaging around 4% per annum between 2016 and 2019. The economic upturn boosted the SME sector, which in 2018 accounted for 60% of employment in the private sector.

Agriculture continues to play a significant role in the economy, generating 12% of GDP, absorbing more than 30% of total employment and representing the biggest share of total exports (30%). Food processing, in turn, accounts for 37% of total manufacturing production and 26% of employment in the manufacturing sector. Better integration of Moldovan food producers into global value chains through export or supply chain linkages with food retailers would allow local food producers to scale-up, strengthen their productivity and ultimately enhance the sector's contribution to growth.

Following the signing of an Association Agreement, the EU became the main trading partner for Moldovan food producers, absorbing almost 70% of the country's food exports. However, small producers often struggle to access the EU market due to limited competitiveness, concerns about food safety standards, limited managerial skills and lack of export support programmes offered by the government.

Moreover, Moldova's food retail sector has experienced significant investment in the last decade and the rise of supermarkets has disrupted the sector, causing the decline of traditional wholesale and retail systems. The supply-side implications of these changes are apparent: smaller and less well-capitalised producers unable to meet the requirements of large supermarkets are losing domestic markets in which they previously held strong positions.

This peer review note assesses the state of the integration of Moldova's food producers into global value chains through: (i) supply chain linkages between food producers and large food retailers operating in Moldova, and (ii) their direct access to foreign markets. The note outlines policy recommendations in three strategic areas aiming to:

- Prepare local food processors for integration into global value chains by (i) boosting the sector's investment and innovation, and promoting cluster development; (ii) increasing SME readiness to implement the food safety standards aligned with the Association Agreement with the EU; and (iii) developing occupational standards and increase the involvement of the private sector in training delivery.
- Facilitate supply chain linkages between local food processors and supermarkets by (i) implementing a targeted programme to enhance the supply-chain linkages between food producers and supermarkets; (ii) stimulating domestic demand for Moldovan food products; (iii) encouraging their creation by targeted policies.
- Improve the SME access to foreign markets by (i) expanding the provision of export support and promotion services; (ii) providing financial support targeted at exporting SMEs; and (iii) simplifying border procedures and decreasing administrative barriers to export.

## *Introduction*

Endowed with fertile soil and moderate climate, the Republic of Moldova has a competitive edge in agricultural production. In turn, the availability of horticultural crops is a strong comparative advantage of food-processing, a sector that accounts for 37% of total manufacturing output and 26% of employment in manufacturing. This sector has a high potential for further growth thanks to the opportunities offered by the developments in food retail and international markets.

The food-retail sector in Moldova has grown in the last decade thanks to significant investments and the expansion of international retail chains. At the same time, the signing of the Association Agreement between the European Union (EU) and Moldova in 2014 significantly improved access of Moldovan producers to EU markets. The EU is the country's most important trading partner, attracting almost 70% of Moldovan exports in 2019. In general, the integration of Moldovan food producers in global value chains through supply chain linkages with large retailers and exports allows producers to scale-up, strengthen their productivity, and ultimately enhance the sector's contribution to the economic development of Moldova. As the OECD Enterprise Survey shows, Moldovan food-processors are anxious to integrate into global value chains: 77% of interviewed companies expressed interest in starting or expanding co-operation with retail chains, and 85% indicated an interest in starting to export or further increasing their exports.

However, small producers often struggle to integrate into the supply chain of large retailers and to expand in international markets. As the OECD Enterprise Survey highlights, among small-medium sized food processors, less than 50% directly supply supermarkets and more than 40% do not generate any turnover from exports. The reasons for this state of affairs are multi-fold: the overall low competitiveness of smaller food producers, concerns about food safety standards, limited managerial skills, and lack of export and linkages support programmes obstruct the integration of small-medium food processors into global value chains.

This note assesses the status of the integration of Moldova's food producers into global value chains through (i) supply chain linkages between food producers and large food retailers operating in Moldova, and (ii) their direct access to foreign markets. The note consists of six chapters. Chapter 1 gives an overview of the economic and institutional context of SMEs in Moldova. Chapters 2 and 3 underline the centrality of the Moldovan food-processing sector and present its potential for further growth, respectively. Chapter 4 analyses the barriers that hinder integration of Moldova food processors into global value chains and Chapter 5 offers policy recommendations for the government. Finally, Chapter 6 outlines a proposal for the support programme that the government could implement to foster integration of food processors into the supply chain of supermarkets operating in Moldova.

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## 1. SMEs in Moldova are a driver of economic growth

### 1.1. Economic recovery boosted SME development in Moldova

In 2015, a banking crisis shook the Moldovan economy, causing a loss of confidence and a sharp depreciation of the leu. In the aftermath of the crisis, the country recovered relatively quickly, with annual gross domestic product (GDP) growth rates averaging 4% between 2016 and 2019 (National Bureau of Statistics, 2020<sub>[2]</sub>). Growth was driven mostly by favourable economic conditions in major trade partners and increasing disposable income supported by tax cuts, wage increases, and remittances (World Bank, 2019<sub>[3]</sub>). The economic shock of the Covid-19 crisis is projected to lead to a contraction of real GDP of more than 3% in 2020 (World Bank, 2020<sub>[4]</sub>). Weak domestic demand, lower commodity prices and a higher base effect suggest that the crisis will result in a gradual decline in inflation in 2020, which may pick up again in early 2021 as demand recovers (World Bank, 2020<sub>[4]</sub>).

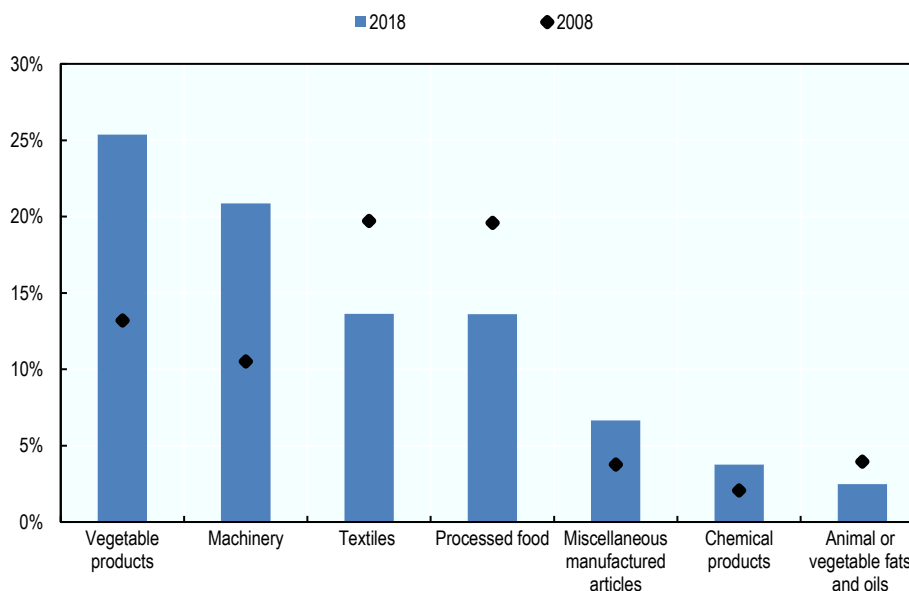
As exports grew faster than imports in the second half of last year, the current account deficit decreased from 10.6% of GDP in 2018 to 9.7% of GDP in 2019. Net foreign direct investment (FDI) inflows amounted to 4.5% of GDP and are likely to decline in 2020 as a result of the crisis (World Bank, 2020<sub>[4]</sub>). Personal remittances stood at 16% of GDP in 2019, and are projected to drop by 15% in 2020 owing to recessions abroad, particularly the EU and Russia (World Bank, 2020<sub>[4]</sub>). Although Moldova's economy is dominated by the services sector and industry, agriculture continues to play a significant role, accounting for 12% of GDP and more than 30% of total employment (World Bank, 2019<sub>[1]</sub>).

The economy is fairly open, with total trade turnover amounting to 86.7% of GDP in 2018 (World Bank, 2019<sub>[1]</sub>). Moldova has a continuously negative trade balance, with net imports of USD 2.9 billion in 2018 (World Bank, 2019<sub>[1]</sub>). This is offset by the steady inflow of migrant remittances. In a very real sense, the country's most important export commodity is labour, reflecting the continuing inability of the economy to generate sufficient high-productivity employment domestically.

Vegetable products remain the principal goods exports, accounting for 25.4% of total exports in 2018. However, FDI inflows have altered the structure of Moldova's export basket. The share of machinery in total exports roughly doubled in 2008-2018, reaching 20.8%. On the other hand, the shares of food and textile products fell by 6 and 5 percentage point, respectively, over the period (Figure 1).

**Figure 1. Main export commodities in the Republic of Moldova**

Share of different product categories on total exports.



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

The EU is Moldova's most important trading partner, accounting for around 70% of exports (European Commission, 2019<sup>[6]</sup>). The second biggest export market is Russia (10.5%) (World Bank, 2019<sup>[7]</sup>).

Labour force participation has recovered from the 2015 crisis, but is still comparatively low, at 46.9% of the population aged 15-64 in 2019. The service sector absorbs 47.4 % of the labour force, ahead of agriculture (36.1 %) and industry (16.5 %) (ILOSTAT, 2019<sup>[8]</sup>).

State-owned enterprise (SOE) assets are equal to more than 32% of GDP. SOEs employ around 13% of the labour force (World Bank Group, 2017<sup>[9]</sup>). The top ten SOEs control more than 74% of total SOE assets and are active in every major sector (e.g., gas import and distribution, telecommunications, transport, etc.). However, their large size and rising long-term debt make them an obstacle to sustainable economic growth and productivity (World Bank Group, 2017<sup>[9]</sup>). Their lower productivity levels reflect a lack of competitive pressure, and they absorb resources that are diverted from the more productive private sector (World Bank, 2019<sup>[3]</sup>). This is one major reason for Moldova's weak competitive position in global markets; its exports are growing more slowly than those of other countries in the Eastern Partnership (EaP) region.

The outbreak of the Covid-19 pandemic has hit Moldova hard, as simultaneous supply- and demand-side shocks reduced economic activity in markets worldwide. The crisis will likely provoke a sharp contraction in output, household spending and international trade. This will put pressure on public finances, as reduced remittances and lower consumption will cut VAT revenues in particular (VAT accounts for 51% of all tax revenues). Foreign direct investment inflows to Eastern Partner (EaP) region are expected to dive by 30-40% in 2020-21, imperilling the region's prospects for recovery. Moldova's small domestic market and vulnerability to macroeconomic trends in its main trading partners expose it to reduced exports and foreign financial inflows (World Bank, 2020<sup>[4]</sup>). To support the economy



during the Covid-19 crisis, the government unveiled a recovery package of LEU 2.1 billion (approx. USD 120 million) to support the economy and businesses (see Box 1 for an overview of the measures).

### **Box 1. Economic policy responses to the Covid-19 crisis**

The Moldovan government designed a package of measures to help SMEs weather the Covid-19 crisis and allocated LEU 2.1 billion (approx. USD 120 million) for its implementation. The measures include:

- suspension of the audit obligation of individual financial statements for 2019 for eligible enterprises (with the exception of public entities);
- postponement of the deadline for payments of income tax of legal entities;
- introduction of a moratorium on all inspections until 1 June;
- reduction in VAT from 20 to 15% for the food and hospitality sector as of 1 May;
- increase of state budget allocations to the emergency fund by LEU 452 million (approx. USD 25.2 million) and to a mortgage guarantee program.
- In case of loans contracted by economic agents to pay for salaries or operating assets, the state will cover bank interests up to three months payroll.

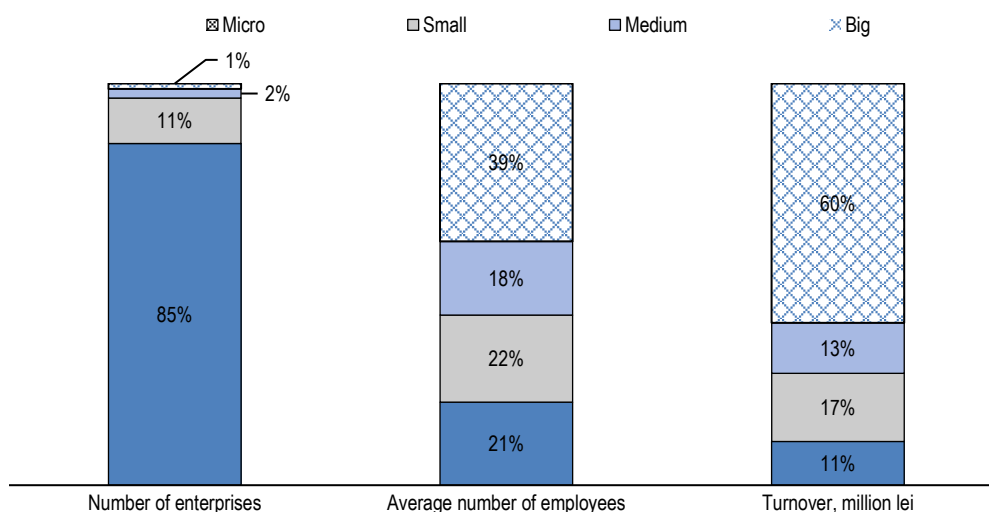
Moreover, on 23 April, a draft law was approved, providing for the implementation of an interest grant programme facilitating businesses' access to credit until the end of 2020, and a VAT refund programme of LEU 1 billion (approx. USD 56 million). Up to LEU 100 million (approx. USD 5.6 million) were allocated to support entrepreneurs: these funds will notably finance grants for women entrepreneurs, ranging from LEU 165,000 to LEU 1.6 million (respectively approx. USD 9,300 and 92,000) to purchase IT equipment.

*Source:* OECD (2020), COVID-19 crisis response in Eastern Partner countries, <http://www.oecd.org/coronavirus/policy-responses/covid-19-crisis-response-in-eu-eastern-partner-countries-7759afa3/>.

## **1.2. SMEs are engines of employment creation and growth**

SMEs are a critical part of the economy, contributing to job creation, economic growth and a stable social environment. In 2018, SMEs represented 99.5% of all enterprises, and accounted for 60% of total employment. (Figure 2). SMEs are distributed across all sectors, with the highest concentration in wholesale and retail trade, which accounted for 34.7% of all SME activity in 2018, with followed by manufacturing at 20.9%.

**Figure 2. Overview of the enterprise population<sup>1</sup>, 2018**



Note: Administrative data sources.

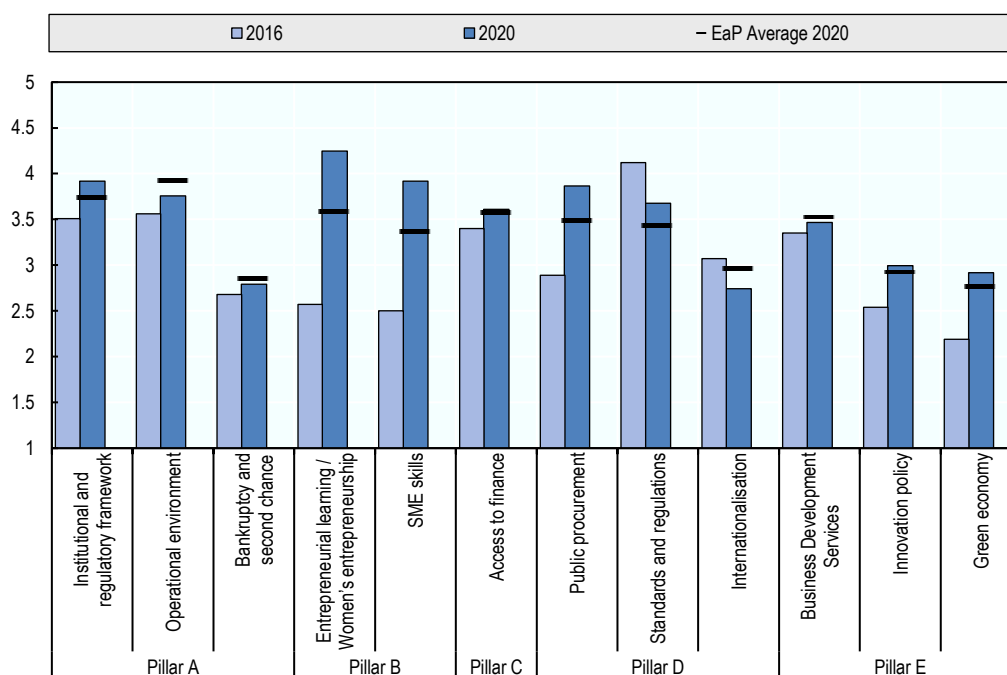
Source: National Bureau of Statistics of the Republic of Moldova.

Moldova has advanced in the implementation of its 2012-2020 SME Development Strategy, removing redundant bureaucratic requirements on enterprises, expanding e-government services and implementing programmes to alleviate barriers to doing business. The 2020 edition of the World Bank's Doing Business indicators ranks Moldova 48<sup>th</sup> overall among 190 economies, up from the 63<sup>rd</sup> in 2015. Moldova ranks 13<sup>th</sup> for *starting a business* and 22<sup>nd</sup> for *registering a property*, but seriously underperforms in *dealing with construction permits* (156<sup>th</sup>) (World Bank, 2020<sub>[11]</sub>). According to the 2018 Global Competitiveness Index, Moldova ranks 86<sup>th</sup> out of 141 countries, with limited market size being one of the most important constraints (ranked 127<sup>th</sup> worldwide) (WEF, 2019<sub>[12]</sub>).

According to the 2020 SBA assessment (OECD, EU, EBRD, ETF, 2020<sub>[13]</sub>), Moldova has advanced in the implementation of policies conducive to SME development and the government's efforts to boost private sector development have produced positive results. Moldova's institutional framework has improved, particularly in the areas of regulatory reform, and the reduction of administrative burdens on entrepreneurs. Moldova further improved the operational environment for SMEs, streamlining company registration procedures and licensing, and bolstering the provision of e-government services. Recently implemented reforms have improved SME access to finance, in particular through an expansion of the registration system for movable assets. Moreover, significant progress has been achieved in policies supporting entrepreneurial learning, women entrepreneurship and SME skills (Figure 3).

<sup>1</sup> The definition of micro, small and medium-sized companies adopted in this report follows the definition of the European Commission. According to such definition, an enterprise classified as micro-enterprise hires less than 10 employees and generates annual turnover of EUR 2 million or less; a small enterprise hires between 10 and 49 employees and generates annual turnover of between EUR 2 million and EUR 10 million; a medium enterprise hires between 50 and 249 employees and generates annual turnover of between EUR 10 million and EUR 50 million; a large company hires 250 or more employees and generates annual turnover of EUR 50 million or more (European Commission, 2003<sub>[46]</sub>).

Figure 3. SBA assessment score for Moldova, 2020 (forthcoming)



Note: SBA score takes values from 1 to 5, where 5 designates the best performance that can be achieved  
 Source: OECD/European Union/ EBRD / ETF (2020), SME Policy Index: Eastern Partner Countries 2020: Assessing the Implementation of the Small Business Act for Europe, OECD Publishing, Paris

### 1.3. The policy framework aims to improve SME integration into global value chains

Increasing SME exports and supporting SMEs' integration into global value chains (GVCs) is a main priority of Moldova's SME policy. Existing initiatives focus both on horizontal reforms (i.e., streamlining regulation or improving business conditions) and on targeted support to the SME sector (i.e., on the abilities of SMEs to reach foreign markets).

The *SME Development Strategy 2012-2020* and its associated Action Plan are the main strategic documents guiding policy support for SMEs. The documents emphasise improving the business climate and reducing administrative burdens on SMEs, encouraging entrepreneurship (especially among women), improving access to finance, encouraging cluster development and supporting SME internationalisation. The Strategy is aligned with broader national development strategies, which do not specifically include SME-related provisions but aim at supporting entrepreneurship through a number of priority actions (e.g. fostering a sustainable and inclusive economy, or building strong human and social capital). In terms of the implementation of the Strategy, substantial progress was made in the reduction of regulatory burdens, the implementation of regulatory impact analysis and the provision of business development services for SMEs. Noteworthy reforms include, among other things, a reinforced policy framework for entrepreneurial learning, an expansion of the credit guarantee scheme, broadened e-government services and a formalised public-private dialogue platform (OECD, EU, EBRD, ETF, 2020<sub>[13]</sub>).

Also, relevant to SME internationalisation is the *Investment Attraction and Export Promotion Strategy 2016-2020*. Its related Action Plan aims at six well-defined objectives, namely: (i) streamline the business regulatory framework, enabling investment attraction and export promotion; (ii) improve the workforce development system; (iii) increase the quality of industrial, transport and trade infrastructure; (iv) build linkages between FDI and the local economy; (v) increase the export capacities of domestic producers; and (vi) improve capacity building of specialised institutions in investment attraction and linkage development. The food-processing sector is one of the seven target sectors with the particular objective of attracting FDI in economic activities providing services to farmers. In terms of the implementation of the Strategy, the most significant improvements were recorded in strengthening the regulatory framework for export and investments (Ministry of Economy and Infrastructure, 2019<sup>[14]</sup>).

In addition, a number of initiatives specifically target the development and internationalisation of Moldovan food producers and processors, as outlined in the *National Agriculture and Rural Development Strategy (NARDS)* for the period 2014-2020. Key actions include: (i) fostering the competitiveness of the food-processing sector through modernisation of equipment and better integration to GVCs; (ii) ensuring sustainable management of resources in agriculture and improve disaster risk management capacities; (iii) improving living standards in rural areas. An interim evaluation in 2018 highlighted a series of shortcomings of the Strategy, among which the lack of prioritisation at sub-sector level and the lack of a support mechanism for households, which in some sub-sectors produced approximately 95% of the total production. An analysis of the indicators regarding inputs and outputs concluded that the impact of the strategy on competitiveness was low (CIVITTA, 2018<sup>[15]</sup>). Since then, the Strategy has been revised according to the findings of the interim evaluation to ensure the achievement of the objectives set for 2020 (Ministry of Agriculture, Regional Development and Environment, 2018<sup>[16]</sup>).

Also, the *Moldovan Food Safety Strategy 2018-2022* aims at increase the consumer protection in Moldova and enhance the international competitiveness of the local producers by raising the amount of food safety standards implemented by all the sectors in the food value chain, from the primary producers to the retailers.

**Table 1. National strategy documents addressing integration of food producers into GVCs**

Strategic document	Objectives
SME Development Strategy 2012-2020	<ul style="list-style-type: none"> <li>Improving the business climate and reducing administrative burdens on SMEs;</li> <li>Encouraging entrepreneurship (especially among women);</li> <li>Improving access to finance</li> <li>Encouraging cluster development</li> <li>Supporting SME internationalisation.</li> </ul>
Investment Attraction and Export Promotion Strategy 2016-2020	<ul style="list-style-type: none"> <li>Streamline the business regulatory framework, enabling investment attraction and export promotion;</li> <li>Improve the workforce development system;</li> <li>Increase the quality of industrial, transport and trade infrastructure;</li> <li>Build linkages between FDI and the local economy;</li> <li>Increase the export capacities of domestic producers;</li> <li>Improve capacity building of specialised institutions in investment attraction and linkage development.</li> </ul>
National Agriculture and Rural Development Strategy 2014-2020	<ul style="list-style-type: none"> <li>Foster the competitiveness of the food-processing sector through modernisation of equipment and better integration to GVCs;</li> <li>Ensure sustainable management of resources in agriculture and improve disaster risk management capacities;</li> <li>Improve living standards in rural areas.</li> </ul>
Moldovan Food Safety Strategy 2018-2022	<ul style="list-style-type: none"> <li>Increase consumer protection;</li> <li>Enhance international competitiveness of local producers.</li> </ul>

#### 1.4. The DCFTA agreement boosted EU-Moldova trade

On 1 September 2014, an Association Agreement (AA) between the Republic of Moldova and the EU entered into force, including the clauses related to the Deep and Comprehensive Free Trade Area (DCFTA). The DCFTA is an agreement between Moldova and the EU that aims at facilitating trade by removing tariff and non-tariff barriers. The DCFTA includes binding rules-based provisions and a co-operation-based reform agenda to harmonise laws, norms and product safety regulations, which still constitute barriers to trade. Five years after its inception, there is evidence to support the view that the DCFTA has been beneficial for both parties and the European Union has become Moldova's main trading partner. In 2018 the EU accounted for around 70% of Moldova's total exports and 50% of total imports (European Commission, 2019<sub>[17]</sub>).

In spite of initial concerns regarding the limited competitiveness of the agri-food sector, the opportunities offered by the DCFTA have defied expectations. In particular, agri-food exports (fresh and processed products alike) benefitted more than industrial products. Since the inception of the DCFTA, exports of agri-food products have increased by USD 820 million (2015-2018) – an upsurge of 52% compared to 2011-2014 (IPRE, 2019<sub>[18]</sub>). This encompasses the export of categories of products that are subject to the annual tariff quotas exempted from customs duties, as well as of those subjected to the circumvention mechanism (wheat, barley, corn, ethyl alcohol). The most remarkable growth in exports is in sunflower seeds (up by 2.7 fold since 2014), wheat (3.7 fold), wines from fresh grapes (1.7 fold), fresh grapes (6.3 fold) and barley (1.7 fold) (IPRE, 2019<sub>[18]</sub>). Exports of plums and table grapes exceeded the zero-duty tariff rate quotas (agreed in the DCFTA). At the moment, there are six products on which tariff trade quotas apply: fresh apples, grapes, plums, tomatoes, grapes juice, and garlic (see Table 1 for an overview). The exports of animal products to the EU is limited only to honey and caviar (European Commission, 2019<sub>[17]</sub>).

**Table 2. Exports to EU of selected products, 2018**

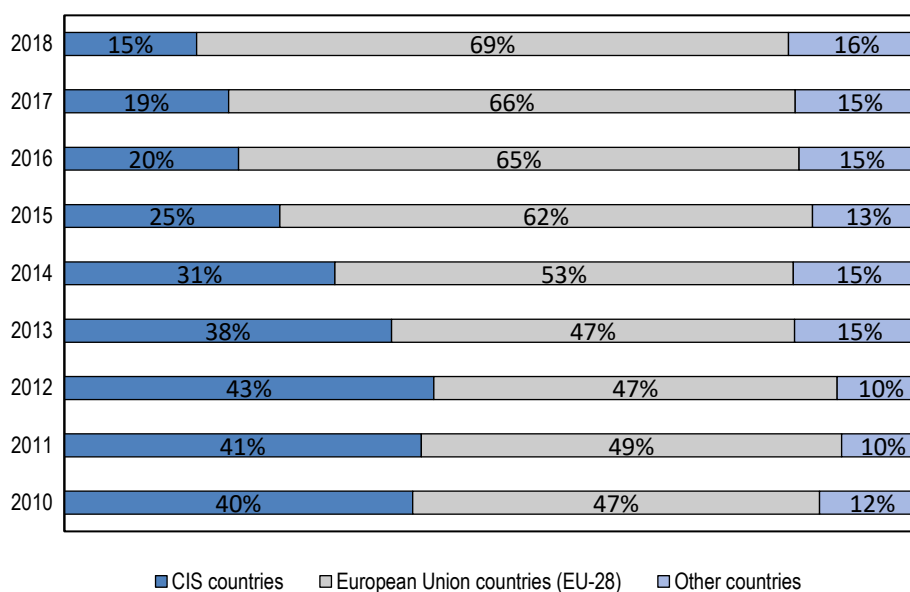
Product categories subject to annual tariff quotas and actual quantities exported to EU.

Products	Annual Tariff Rate Quota	Exports to EU
Fresh apples	40 000 tonnes	c.a. 5 – 6 000 tonnes
Grapes	10 000 tonnes	> 10 000 tonnes
Plums	10 000 tonnes	> 10 000 tonnes
Tomatoes	2000 tonnes	0
Grape juice	500 tonnes	0
Garlic	220 tonnes	0

*Note:* With the exception of honey, products of animal origin are not exported to the EU.

*Source:* Association Agreement between the EU and the Republic of Moldova (2014), Official Journal of the European Union; Interview with the Delegation of the European Union to the Republic of Moldova

Fears of a rapid increase in EU imports proved to be misplaced: in 2018, there was a decrease, relative to 2014, of the imbalance in trade between Moldova and the EU, with the trade balance deficit reduced by 25% (IPRE, 2019<sub>[18]</sub>). Therefore, during the implementation of DCFTA, domestic products became more represented on the EU market, contributing to the growth and diversification of exports. In fact, exports to the EU are more diversified than those to traditional export markets: for example, exports to Russia favoured apples and wine only. The increase in exports to the EU compensated for the losses deriving from reduced trade with the Russian Federation following the imposition of sanctions. Moldovan exports to Russia shrank from USD 400 million in 2014 to USD 250 million in 2017. A study conducted in 2018, found that between 2015 and 2017, the volume of agri-food exports to the EU increased by USD 515 million, compensating for the USD 512 million reduction in exports of these products to Russia, Belarus and Ukraine (Figure 4) (Lupușor and Gumene, 2018<sub>[19]</sub>).

**Figure 4. Export partners of Moldova by group of countries**

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



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The DCFTA entailed positive macroeconomic implications as well: the net impact of exports to the EU is estimated at over EUR 367 million, contributing to the creation of over 15,000 jobs, increasing budget revenues by 5%, and leading to EUR 320 million increase in investments in the private sector (IPRE, 2019<sup>[18]</sup>).

However, there is still considerable room for further leveraging the potential offered by the DCFTA. Most of the preferential quotas exempted from customs duties – quotas on apples, for example – are still far from being exhausted. Although the tariff quotas on apples are set at 40 000 tonnes, Moldova exported only between 5 000 and 6 000 tonnes of apples in 2018. This is due also to poor compliance with technical requirements related to packaging, poor pre- and post-harvesting practices, and a lack of proper infrastructure (it still needs to be improved to adapt to EU market standards). Another area where Moldovan agriculture significantly lags is the export of products of animal origin (e.g. meat, eggs, dairy products) due to the failure to comply with EU standards, often because of poor infrastructure (i.e., accredited laboratories for animal health) and low investment in its renovation. Legal approximation in line with the AA/DCFTA is in progress, but with substantial delays on organic farming and animal health.

Beside the DCFTA, Moldova is part of the Central European Free Trade Agreement (CEFTA), which entered into force in Moldova on 1 May 2007. The agreement facilitates intra-regional economic co-operation through trade liberalisation. It proposes a uniform, predictable and long-term legal framework that contributes to the development of bilateral and multilateral trade between member countries. It supports the abolition of all customs duties on imports and exports, of quantitative restrictions and other charges with equivalent effect in the exchange of industrial and agro-industrial products (Ministry of Economy and Infrastructure, 2020<sup>[20]</sup>).

Since its inception, it has had a favourable (yet limited) impact on trade and investments in the region and with the EU (Crudu, Sirbu and Ignatov, 2018<sup>[21]</sup>). The CEFTA secretariat adopted a number of programmes to facilitate trade among member countries by promoting mutual recognition of documents and procedures. Another programme is the Decision on Facilitation of Trade in Fruit and Vegetables that not only simplifies the system of controls for trade in fruit and vegetables within CEFTA, but also ensures compliance with EU standards on food safety (CEFTA, 2020<sup>[22]</sup>).

## 2. Food processing is a dominant sector in Moldova

### 2.1. Food processing is a main pillar of manufacturing

Fertile soil and a moderate continental climate give Moldova a competitive edge in agricultural production. Although the service sector dominates the economy, agriculture continues to generate 12% of GDP and more than 30% of total employment. In particular, Moldova's agricultural capacities are a strong asset for food processing, a sector that accounts for 37% of total manufacturing output and 26% of employment in the manufacturing sector (Table 3). In 2018, among the 993 firms registered in the sector, 100 were large or medium-sized companies,<sup>2</sup> and they accounted for 78% of total employment in the sector.

**Table 3. Overview of the food-processing sector, 2018**

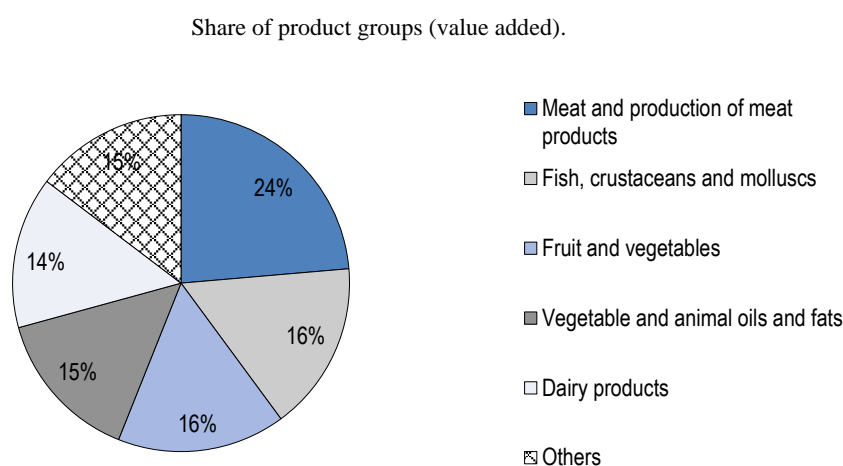
Number of large enterprises	47
Number of medium enterprises	53
Number of small enterprises	192
Number micro enterprises	701
Value-added, % of manufacturing sector	33%
Employment, % of manufacturing sector	25%
Export (share of total domestic export) *	43%
Annual growth of export [2009-2018]	7%
Number of M&A deals in Moldova [2003-2017] **	2
Greenfield FDI, % of total in Moldova [2003-2017] **	7%

*Note:* (\*) Data refers to the exports of the agri-food sector. (\*\*) Data refers to 2017.

*Source:* National Bureau of Statistics of the Republic of Moldova; United Nations Comtrade Database - International Trade Statistics - Import/Export Data; FDI Markets.

Food production is dominated by processing and preserving meat products, followed by other types of products, such as fruit and vegetables, fish and seafood, vegetable/ animal oils and fats, and dairy (Figure 5).

<sup>2</sup> The definition of large or medium-sized companies follows the guideline of the European Commission according to which a medium-sized company hires between 50 and 249 employees and a large company employs 250 or more persons.

**Figure 5. Structure of the food processing sector production in Moldova**

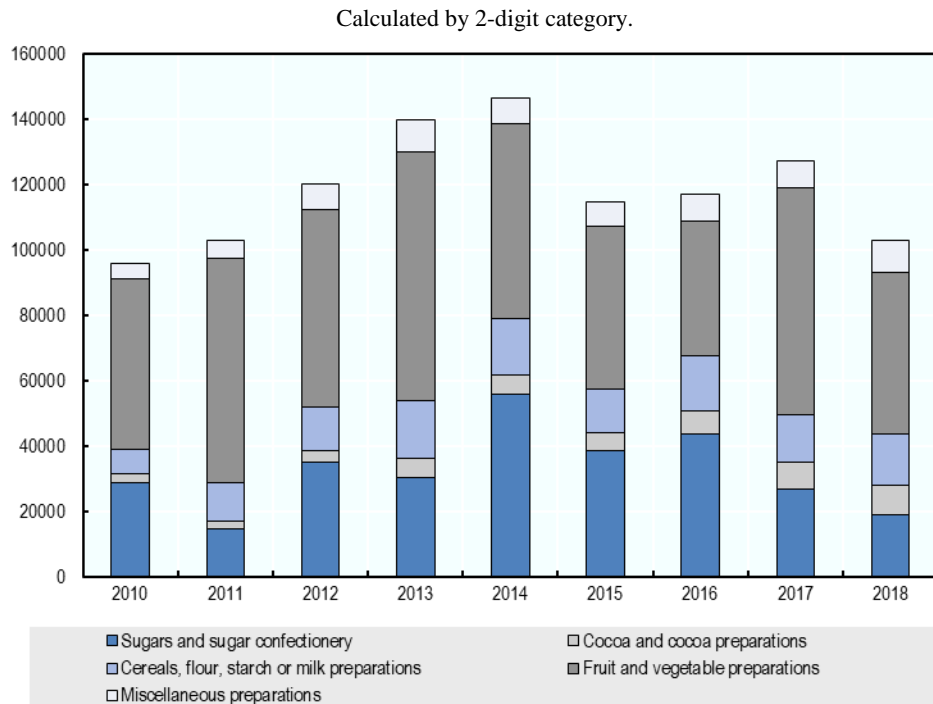
Source: National Bureau of Statistics of the Republic of Moldova.

## 2.2. Processed fruit and vegetable products are driving the sector's exports

The ready availability of raw materials (horticultural crops) for the production of processed fruit and vegetables is an important advantage of the sector. Fruit and vegetable production (an average of 600 000 tons per year for fruits, 300 000 tons for vegetables, excluding potatoes) enables manufacturers to have access to adequate varieties of high quality. Fruit-growing is a particularly strategic segment, representing about 40% of the agricultural sector's total value added, with apples accounting for 70% of the total production of fruits (MIA, 2018<sup>[23]</sup>).

Most exports of food products are preparations of fruits, vegetables and nuts (44% of total food products exports in 2018) and sugar-derived products (25%). These two industries suffered from a Russian embargo imposed in 2014 on Moldovan wines, fruits and vegetables – including canned vegetables and fruits, solid cane and beet sugar. Additionally, the EU ended its domestic quota system on sugar in September 2017, thereby limiting the scope for imports, which are forecast to continue decreasing in the coming years (European Commission, 2017<sup>[24]</sup>; SADC, 2017<sup>[25]</sup>). Figure 6 illustrates the contraction of exports of fruit, vegetable, and sugar-derived products.

Two types of producers can be distinguished in the manufacturing of processed fruits and vegetables: (i) about 80 SMEs, mainly oriented toward the domestic market, and (ii) a handful of large companies, accounting for about 80% of production and the majority of exports.

**Figure 6. Processed food sector export, 2010-2018**

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

Among the few companies who dominate the exports, there are Orhei-Vit, Alfa-Nistru, Ecovit, Natur Bravo, Fortuna Plus, Covali & Co, VM PlumCom, Monsterax-GSG, Merencon and S.A. Fabrica de Conserve din Calarasi. Their most exported products are canned fruits and vegetables (peas, corn, tomatoes). Other exported goods (90% produced for export purposes) include tomato pastes, baby food, jams and preserves. About 70% of dried fruit production is destined to foreign markets, primarily the EU (80% of total export), followed by CIS countries.

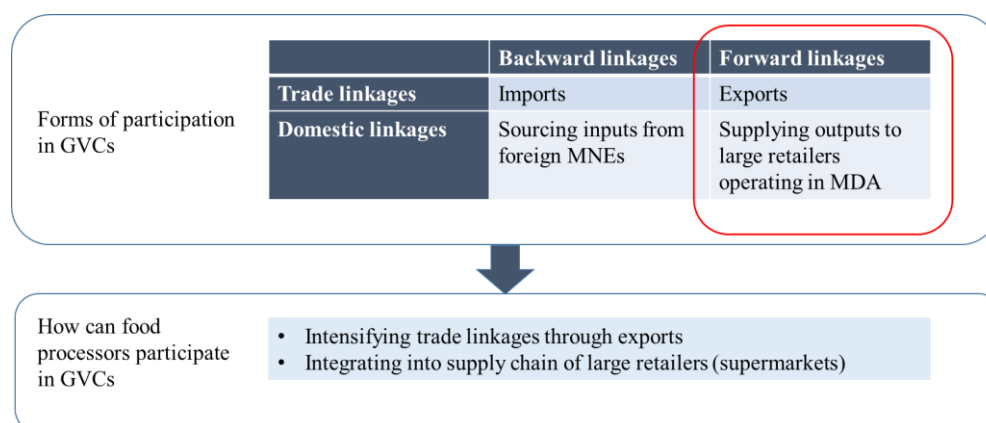
### 2.3. Global value chains offer an important opportunity for Moldovan food producers

Accessing international markets and promoting exports can strengthen SMEs' productivity and their contribution to the economy. SMEs are more flexible and responsive to changes in demand – e.g. through product differentiation and customisation – than large firms. SMEs dominate some niches in international markets, and they are often innovative partners of multinational enterprises (MNEs). The activity of internationalised SMEs might have a positive spillover effects in domestic markets: by introducing higher competition, they encourage knowledge acquisition by local companies and might stimulate their competitiveness (OECD, 2018<sup>[26]</sup>).

SME-MNE linkages involve repeated interactions of SMEs with larger firms, and can result in transfers of knowledge, technology, and skills (OECD, 2005<sup>[27]</sup>). Such linkages can take many forms, including joint ventures, strategic alliances, contract manufacturing, technology licenses, franchises, research collaborations, and informal arrangements.

In the Moldovan food-processing sector, participation in global value chains (GVCs) usually takes the form of forward trade linkages through exports of goods, or forward domestic linkages through integration into the supply chain of large retailers (Figure 7). Better participation in GVCs through exports or supply chain linkages with large enterprises allows SMEs to scale up production, broaden their skills and benefit from productivity gains, organisational improvements, innovation and technology spill-overs (Wagner, 2011<sub>[28]</sub>; Lileeva and Trefler, 2010<sub>[29]</sub>; Caliendo and Rossi-Hansberg, 2012<sub>[30]</sub>).

**Figure 7. Participation of food processors in GVCs**



Source: OECD – UNIDO (2019).

Not all producers can effectively integrate into GVCs. Enterprises with low productivity and outdated production methods are poorly positioned to scale up and enter foreign markets or engage with investors and large companies. However, SMEs able to specialise in specific product segments and to respond flexibly to changes in market conditions and consumer preferences are well placed to tap GVCs' sustainable growth and employment benefits (OECD, 2018<sub>[26]</sub>).

Given the relatively stable demand for food products during economic shocks, the food-processing sector is likely to weather this crisis better than others, though they will be affected by weaker demand in Moldova's main export markets, the European Union and Russia. Moreover, agriculture and food processing are not immune to supply-chain disruptions. SMEs specialised in processing particular commodities might be exposed to a shortage of raw materials, as smallholder farmers have difficulties harvesting and selling their produce. This holds true particularly for processors of produce like vegetables, cereals and berries (UN, 2020<sub>[32]</sub>).

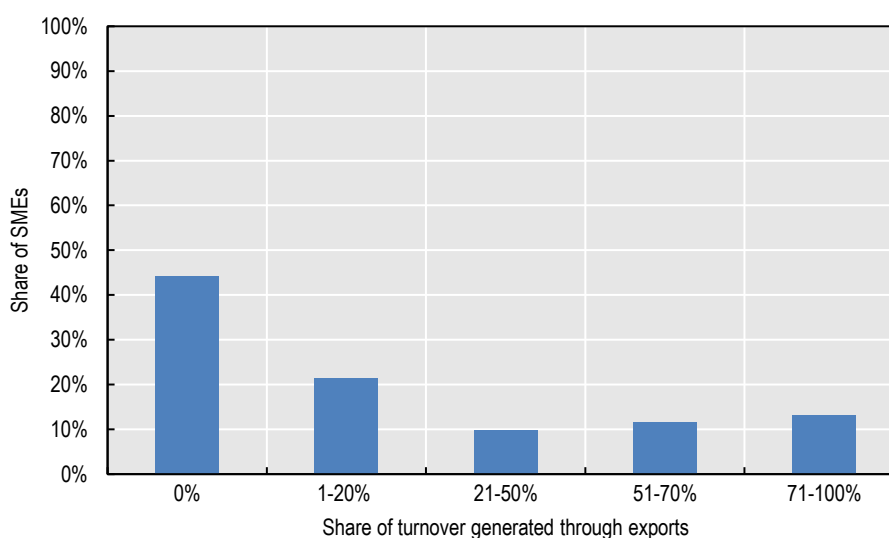
However, the Covid-19 crisis also opens a window of opportunity for the development of the sector. Because of its centrality in the Moldovan economy and its potential for further growth, the food-processing sector can serve as a cornerstone to strengthen the resilience of the economy. Stimulating local demand and supply chain linkages between food producers and large food retailers operating in Moldova is crucial to raising the competitiveness of the sector.

### 3. Opportunities in foreign and domestic markets remain untapped

#### 3.1. The export potential of Moldovan food producers remains untapped

Although growing international trade and improved access to the EU single market have boosted exports of processed food products, the export potential of local producers remains untapped. The results of the 2019 OECD Moldova Enterprise Survey (Box 2) show that 60% of SMEs operating in the processing of non-animal origin food products either do not export or export less than 10% of their total turnover (Figure 8).

**Figure 8. SMEs' turnover coming from export**



*Note:* The survey sample is not representative of the general business population in the Republic of Moldova.  
*Source:* OECD Enterprise Survey of Moldova (2019).

Among the exporting respondents, 91.2% export to EU markets. Romania absorbed the largest share of these exports: almost 65% of companies trading with the European Union export to Romania, followed by Germany and Italy, with around 12.9% each. Russia is the most important market non-EU market (20.6% of exporting SMEs interviewed).

#### **Box 2. OECD Enterprise Survey of Moldova 2019**

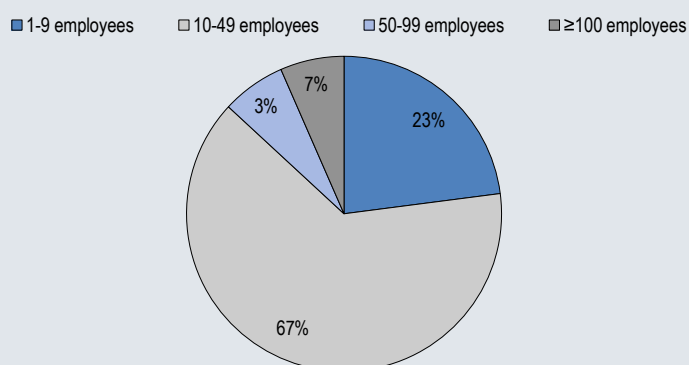
The enterprise survey was launched in June 2019 after consultation with the public-private Working Group established for this project in May 2019, and a pilot phase of two weeks. The survey was developed by the OECD and administered by a local survey management company.

It should be noted that the survey is *not* based on a representative sample of the overall business population in the food-processing sector. The particular focus of the project required interviewing companies that (i) process food products of non-animal origin, and



(ii) have export potential (which was assumed to be higher for companies of 10 employees or more). Overall, the 61 businesses surveyed employ 1,971 full-time staff. Only four companies employ 100 or more full-time workers, and a further four companies hire between 50 and 99. Two-thirds of the survey sample (39 firms) hire between 10 and 49 employees, and 14 firms are micro-businesses, employing between one and nine employees (Figure 9).

**Figure 9. Respondents by number of full-time employees**

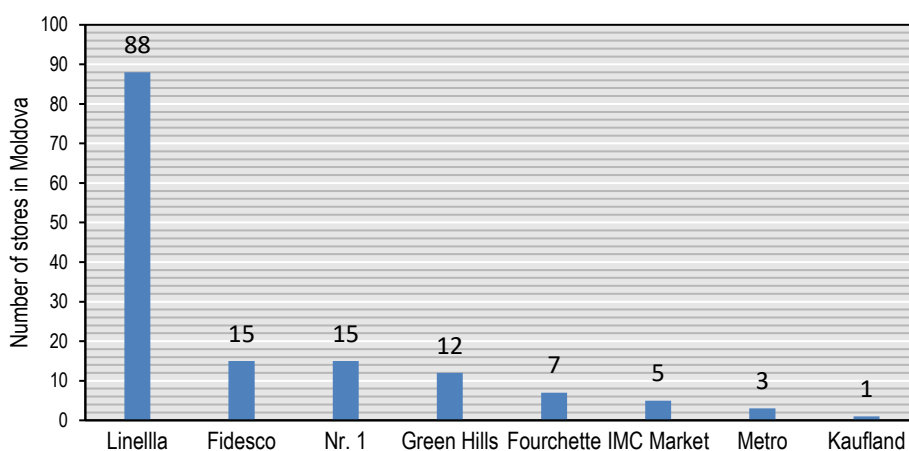


In terms of ownership, 53 companies are 100% Moldovan-owned private companies and one is a state-owned enterprise. The sample included two firms with a small share (under 10%) of foreign ownership and five firms with 50-100% foreign ownership.

### 3.2. Investment in food retail is changing the rules of the game for food producers

The last three decades have seen significant structural change in the food retailing sector in the Central and Eastern Europe. Traditionally dominated by small outlets, the sector has witnessed a strong growth of supermarket chains. Market liberalisation, income growth and changing consumer preferences have all contributed to the growth of food retail chains in Central and Eastern Europe.

Moldova is no exception. After a transition period characterised by privatisation and market liberalisation, significant investment is now being channelled into food retailing. Currently, there are eight food retail chains operating in Moldova, running more than 150 supermarkets of different sizes to serve a market of just over 3.5 million people (Figure 10). Most supermarkets are located in Chisinau, and Balti, but experience from other CEE countries suggests that Moldova can expect expansion of supermarkets beyond these two towns. There are eight main retail chains operating in Moldova: Linella (operating 88 supermarkets, it is the biggest), Nr.1, Fidesco, and IMC are Moldovan-owned retail chains; Green Hill, Fourchette, Metro and Kaufland have foreign ownership. In particular, Metro and Kaufland are two big international brands with the ambition to expand further in Moldova (e.g. Kaufland has announced its intention to open 20 supermarkets in the coming years).

**Figure 10. Food retail chains operating in Moldova**

Experience shows that the rise of supermarkets has a profound effect on the food-processing sector, as it involves critical changes in the organisation and institutions of the food system, including centralisation of procurement, the decline of traditional wholesale systems, and increasingly demanding private standards for product quality and safety.<sup>3</sup> The supply-side implications of these changes are becoming apparent: they have taken a toll on smaller and under-capitalised Moldovan producers unable to meet the new requirements, resulting in the exclusion of many small producers.

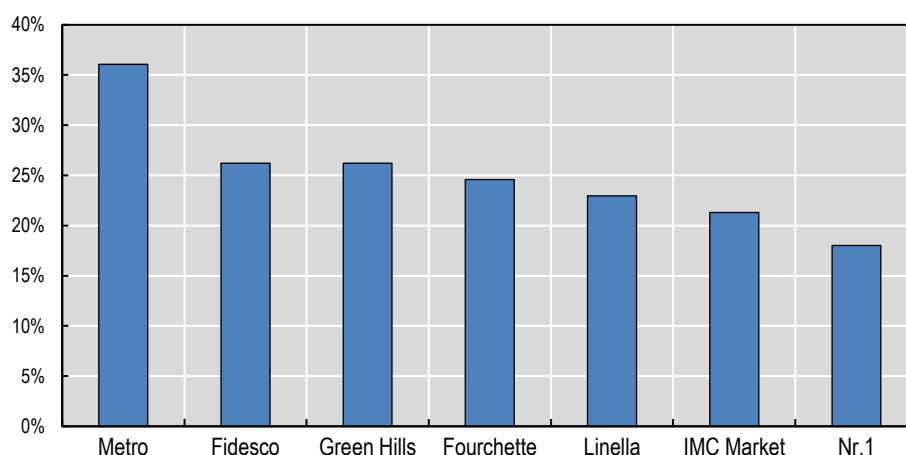
The expansion of major retail chains has also spurred rapid development of the private label product segment – products manufactured by one company but sold under another company’s brand. Private label products were initially used primarily in the context of the major retailers’ pricing strategies and targeted mainly low-income consumers.<sup>4</sup> As multinational retailers make inroads into Moldova, the availability of private label products is expected to increase, which can be a new business opportunity for Moldovan food processors.

### 3.3. SMEs have difficulties supplying retail chains

While food retail chains have experienced strong growth, local food producers have often struggled to adjust to this structural change and shift their business strategies. The OECD Survey finds that less than half of the interviewed food-processing companies directly supply any of the large food retail chains operating in Moldova. Metro Cash & Carry is the most frequently cited partner (36% of respondents), followed by Fidesco and Green Hills (26%) (Figure 11).

<sup>3</sup> <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.505.1385&rep=rep1&type=pdf>

<sup>4</sup> <http://www.iufn.org/wp-content/uploads/2014/02/Reardon-et-alii-2008-The-Rise-of-Supermarkets-and-Their-Development-Implications.pdf>

**Figure 11. Share of SMEs supplying retail chains operating in Moldova**

*Note:* The survey sample is not representative of the general business population in the Republic of Moldova; Because Kaufland started its operations in 2019, it was not considered for this question.

*Source:* OECD Enterprise Survey of Moldova (2019).

For the producers that have established such linkages, food retail chains are the major clients. Thus, 80% of SMEs reporting supply linkages with supermarkets generated more than 70% of their total turnover through these linkages. Producing goods under the retailers' private label brand is already a widespread practice: 40% of those that supply supermarkets do so through a private label (e.g., supermarket's own brand).

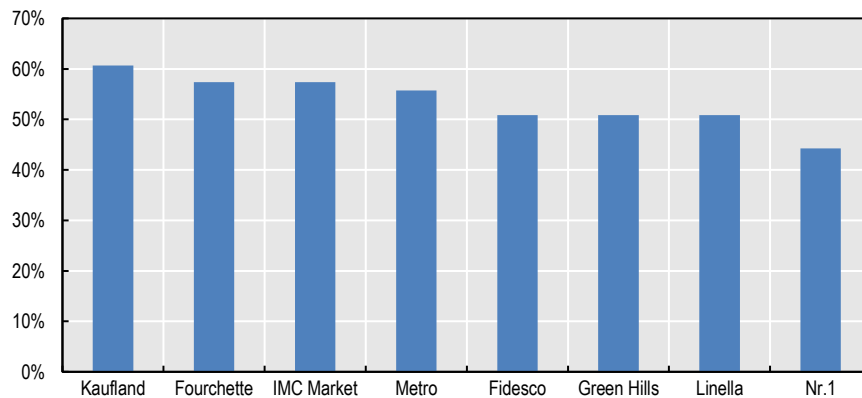
### 3.4. Producers aim to increase exports and enhance their linkages with supermarkets

The vast majority of respondents to the OECD Survey stated that they wished to increase their integration into GVCs, through increased exports, supply chain linkages with supermarkets, or both. Around 85% of the exporting companies in the survey indicated an interest in further increasing exports and 80% of non-exporters would like to start exporting. Romania was the most commonly cited foreign market for both exporting and non-exporting SMEs: 41.2% of the former and 59.3% of the latter valued, alongside the cultural similarities, the proximity of this market and its membership in the European Union. The EU is highly attractive overall: Germany is the second most interesting market for both categories (32.4% and 44.4%), followed by France (26.5% and 18.5%) and Italy (23.5% and 3.7%). The Russian Federation also continues to be an attractive market for 14.7% of the exporters and 22.2% of the non-exporters.

Around 77% of interviewed companies expressed interest in starting or expanding co-operation with retail chains operating in Moldova itself. The most interesting retail chain for local producers was Kaufland, which has demonstrated its ambition to invest significantly in their operations in Moldova. Overall, however, there were no major differences in perceptions of retailers, even though SMEs gave a slight preference to internationally owned supermarkets (Figure 12).

**Figure 12. Most interesting retailers for Moldovan SMEs**

(Share of interviewed SMEs that would like to do more business with selected retail chain)



*Note:* The survey sample is not representative of the general business population in the Republic of Moldova.

*Source:* OECD Enterprise Survey of Moldova (2019).

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#### 4. Several barriers are impeding the integration of Moldovan food processors into global value chains

A sound business environment is of critical importance for SMEs to integrate into GVCs, as it fosters competition, unleashes technological changes and innovative behaviour, and eases access to strategic resources for export (e.g. transport, logistics or ICT infrastructure). A light regulatory burden, efficient insolvency regimes, low tax-compliance costs, public sector integrity and transparency, sound education system and adequate access to finance are among the most prominent factors enabling SMEs to integrate into GVCs (OECD, 2018<sup>[26]</sup>). Moreover, the overall investment climate significantly influences the dynamism of, and opportunities for, SME-MNE linkages. Responsive government and public consultations are crucial to ensuring that investment-related policies meet their objectives and promote sustainable and inclusive development (OECD, 2005<sup>[27]</sup>).

Given the rising levels of market liberalisation and FDI, Moldovan companies have access to opportunities that internationalisation offers. However, they are also increasingly exposed to competitive pressures. Government policies that encourage innovation, improvements in production and managerial processes are essential to increasing the international competitiveness of Moldovan food producers.

Beyond horizontal reforms improving business conditions, governments can directly support SMEs' access to strategic resources that will allow them to better integrate into GVCs. For instance, export credits or loans granted to SMEs by public entities can help relieve financial constraints on small firms seeking to reach international markets. Business development services – e.g. services provided by export promotion agencies – can develop expertise and export-related skills in the SME sector (OECD, 2018<sup>[26]</sup>).

Targeted public support can also efficiently foster SME-MNE linkages by strengthening SMEs' capacities and encouraging retail chains to engage with small local producers. Authorities have a key role to play in providing information and matchmaking services to fill the informational gap between SMEs and MNEs.

In particular, the integration of Moldovan companies into GVCs is hindered by barriers in three different directions. First, their competitiveness is limited because of low investment and innovation activities of local producers, poor compliance with internationally recognised food safety standards, and a general lack of skills at both the managerial and employees' levels. Secondly, the support available from export promotion agencies is limited and financial support to exporting companies is almost non-existent. Third, small producers often struggle to meet the requirements of retailers. These three sets of barriers play an important role in preventing deeper integration of Moldovan food processors into GVCs.

#### 4.1. The limited competitiveness of food processors prevents their integration into GVCs

##### *The low investment of local producers hinders their competitiveness*

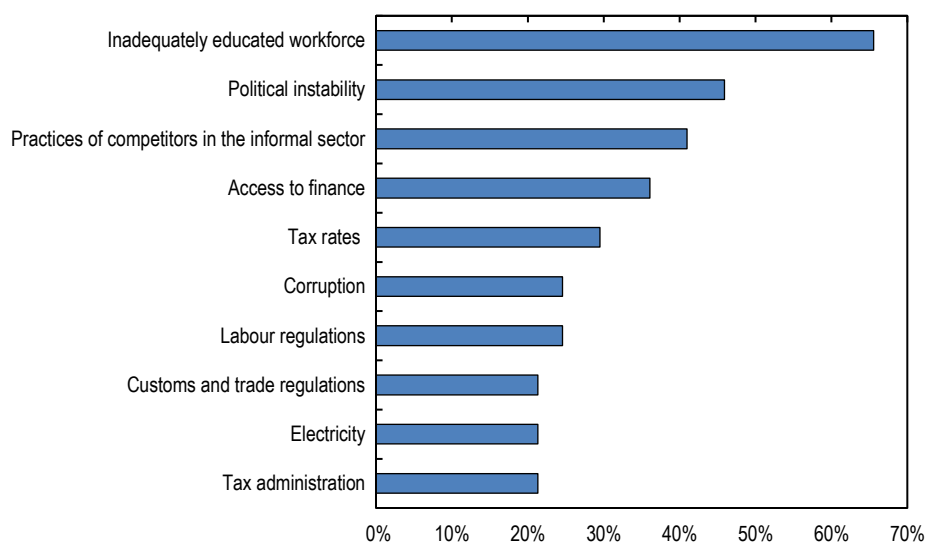
Moldova's agricultural and food processing sector suffers from low investment. Many small producers that have traditionally relied on the domestic and Russian markets have not systematically modernise their equipment and continue to use outdated production technologies. This became especially apparent when the Russian Federation imposed sanctions on Moldovan food products and local producers struggled to adapt to EU production and quality standards.

The duality of the food-processing sector, with a small number of highly productive firms and a large number of SMEs struggling to survive is one of the factors contributing to low overall investment and innovation in the sector. Small companies not only lack financial resources to engage in innovation and investment, they also have limited access to know-how and innovation networks and lack the capacity to implement comprehensive innovation and investment projects (from innovation to commercialisation of the product).

While there are no precise data on the innovation activity of Moldovan food processors, low investment activity, supply- and demand-side concerns about the competitiveness of local production and overall sector stagnation indicate limited innovation on the part of SMEs in food-processing. Among the interviewed SMEs, 20% said they have difficulty adapting products to international demand and 28% suffered from lack of adequate scale to meet international demand; a similar proportion perceived the lack of modern food processing technology as a barrier to international competitiveness (OECD, 2019<sup>[31]</sup>).

Facilitating SMEs' access to external finance is fundamental to enabling their investment in new technologies and improved production processes. However, Moldovan food processors struggle to access external financing. Limited access to finance scored as the fourth biggest obstacle to growth in the OECD Survey (Figure 13). Banks are the main providers of external finance for SMEs, accounting for more than 90% of the total supply of credit, with alternative sources of SME financing remaining limited. Yet, domestic credit to the private sector in Moldova stood at only 23.5% of GDP in 2018, the second lowest value in the Eastern Partner region; this is substantially lower than the EU average of 140% (World Bank, 2018).



**Figure 13. Food processors' perception of growth barriers**

*Note:* The survey sample is not representative of general business population in the Republic of Moldova  
*Source:* OECD Enterprise Survey of Moldova 2019.

### ***The absence of agri-food clusters hinders international competitiveness of small producers***

Cluster promotion can be a valuable tool to support agri-food and help them connect to food value chains (domestic and global) more efficiently and sustainably. Clustering can offer distinctive advantages to enhance the level of competitiveness and innovation capacity of the agri-food sector (FAO, 2010<sup>[32]</sup>). Clusters stimulate horizontal and vertical linkages among farmers, processors, supporting organisations and research institutions. Such agglomeration facilitates access to information and larger markets. Furthermore, clusters can channel public support to increase competitiveness in the agricultural sector more efficiently. Among producers, SMEs stand to gain most from the synergies unleashed by the interconnectivity of the cluster value networks, as productivity and value-added production increase more promptly for them than for larger companies.

The Moldovan government emphasises cluster development as a form of support to SME development in the SME National Development Strategy 2012-2020, the innovation strategy for 2013-2020 “Innovation for competitiveness”, and the concept note on cluster development in the industrial sector. As of today, there are six clusters operating in Moldova in a variety of sectors (Table 4) but none in the agri-food sector. The absence of cluster that could organise the critical mass of the small food producers translates into significant losses of efficiency, innovation, linkage opportunities with other actors, and public support for the sector.

**Table 4. Existing clusters in Moldova**

Industry	Creation date	Name	Location
Education	Aug. 2008	UnivER SCIENCE	Chişinău
Organic Agriculture	June 2017*	BIO DANUBIUS	Cahul
Agro-Tourism	Apr.-Nov. 2016	Armonia Nordului	Soroca
		Drumul Recifelor	Edineţ
		Vilador	Slobozia Măgură, Sîngerei
		Lunca Prutului de Jos	Văleni, Cahul
Energy and Biomass	Sep. 2019	Energie și Biomasă	Chişinău
Automotive	Dec. 2017	Clusterul industrial- ştiinţific al industriei automotive	Bălţi
Textile	11.09.2018	Clusterul Textil SORINTEX	Soroca
Creative	10.09.2018	Clusterului Regional CREATIV	Cahul

*Note:* \* Date of accession of the associations of bio producers and local authorities of Cahul, Moldova to the BIO DANUBIUS cluster, based in Romania.

Lack of willingness of entrepreneurs to engage in joint actions is often a major impediment to cluster development and despite potential benefits stemming from joint actions, entrepreneurs often choose a go-alone strategy. In the Moldovan context, this is exacerbated by negative experience with collectivisation from the Soviet-era, absence of consistent cluster policies in the last three decades, and low awareness of entrepreneurs about potential benefits of co-operation.

#### *Lower food safety and quality standards prevent SMEs from being competitive*

SMEs' ability to comply with EU standards in agriculture, animal husbandry and food-processing determines the potential of SMEs to fully benefit from the possibilities offered by the AA/DCFTA with the European Union. Concerns on the side of retailers about the compliance of suppliers to food safety and quality standards continue to be among the major obstacles preventing Moldovan producers from integrating into GVCs. Interviews with food producers and retailers suggest that health and safety practices across the industry are deficient and not always in line with domestic regulations and international good practices. The National Agency for Food Safety (ANSA) is responsible for ensuring the implementation of measures related to sanitary and phytosanitary standards spanning the entire food value chain. Most recently, it has finalised the list of legislative harmonisation of sanitary and phytosanitary standards, which will enter into force in 2020, to further align local legislation with EU regulation and it has promoted the launch of the optimisation process for laboratories to support exports of animal products.

However, legal approximation according to the terms of the Association Agreement is being substantially delayed with respect to standards on animal health. A draft law on zootechnics that would transpose 20 EU acts has not yet been adopted and a draft law on animal by-products not intended for human consumption has been voted only at the first reading (IPRE, 2019<sub>[18]</sub>). Laboratory diagnostic capacity for monitoring and surveillance of animal diseases as part of official controls is still poorly enforced (European Commission, 2019<sub>[17]</sub>). The traceability of products is weak and the infrastructure of the production chain is under-invested in and below EU standards. The drawbacks are mostly felt in the export of animal food products, particularly category B chicken and eggs.

The broad mandate of the Agency could lead to enhanced consistency of implementation and monitoring practices, but it currently lacks the capacity needed to carry out the kind of independent controls and meet the provisions of the Association Agreement. This lack of capacity is caused in part by the high staff turnover and limited availability of financial resources. Inconsistent implementation of quality assurance standards by ANSA inspectors and issues related to corruption were also reported during the interviews with SMEs. An EU Twinning Project and a project implemented by GIZ both seek to improve ANSA's capacity to implement and enforce the standards, but more efforts are needed to improve the process.

SMEs' awareness of, and readiness to implement, food safety measures remains limited. While the food processing companies interviewed in the OECD survey mostly said they were not concerned about their ability to meet international phytosanitary and food safety standards, interviews with ANSA, sector business associations, international donors and retailers suggest that the majority of food-processors do not yet meet international food safety requirements. Their ability to make progress in this area is limited on the one hand by low awareness of relevance and scope of improvements needed, and lack of financial resources to implement often costly measures.

Adherence to internationally recognised food-safety standards is an effective way for producers to convey to consumers and retailers that their production practices meet international standards. Food safety certificates that are widely recognised include ISO 22000,<sup>5</sup> Hazard Analysis Critical Control Point (HACCP),<sup>6</sup> GlobalG.A.P. (Good Agricultural Practice)<sup>7</sup> and GLOBALG.A.P. Risk Assessment on Social Practice (GRASP, an add-on product designed to complement GLOBALG.A.P. certification).<sup>8</sup> However, the results of the OECD Enterprise Survey show that 74% of the interviewed food processors do not adhere to any internationally recognised standard. Among those who do, 40% hold the ISO 22000 certificate and 16% hold HACCP. In addition, 15% of the interviewed companies are certified to the ISO 9000/9001 standard, a certification confirming adherence to quality management principles (Figure 14).

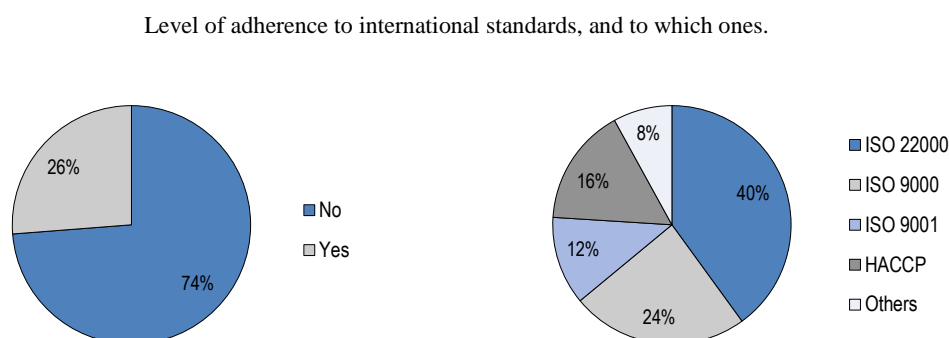
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<sup>5</sup> <https://www.iso.org/iso-22000-food-safety-management.html>.

<sup>6</sup> <https://www.fda.gov/food/guidance-regulation-food-and-dietary-supplements/hazard-analysis-critical-control-point-haccp>.

<sup>7</sup> <https://www.globalgap.org>.

<sup>8</sup> [https://www.globalgap.org/uk\\_en/for-producers/globalg.a.p.-add-on/grasp](https://www.globalgap.org/uk_en/for-producers/globalg.a.p.-add-on/grasp).

**Figure 14. Penetration of internationally recognised certificates in Moldova (2019).**

*Note:* The survey sample is not representative of general business population in the Republic of Moldova  
*Source:* OECD Enterprise Survey (2019).

### ***The lack of skilled workforce and limited managerial skills hinder the sector's development***

Inadequate workforce skills are a significant obstacle to the growth of many Moldovan firms. The OECD Enterprise Survey finds that almost two-thirds of respondent firms see an inadequately educated workforce as the single most pressing barrier to growth (OECD, 2019<sup>[33]</sup>). A 2017 survey conducted by the World Bank found that workers lack both occupation-specific and socio-behavioural skills. In particular, the skills of young workers are of more concern to employers than those of older workers (World Bank, 2017<sup>[34]</sup>), indicating general apprehensions about the ability of the current education system of Moldova to equip its students with the skills needed to satisfy the job market. A recent survey conducted by the World Bank found out that workers, especially middle-skilled ones, lack both occupation-specific and socio-behavioural skills. In particular, skills of young workers are of more concern to employers (World Bank, 2017<sup>[35]</sup>), indicating general concerns on the ability of the current education system of Moldova to equip its students with the necessary skills to satisfy the requirements of the job market.

Even though the Strategy for Vocational Education and Training Development 2013-2020 recognised the important role of vocational education in preparing labour force for the labour market needs, its targets have not been fully met. In 2017, Moldova has approved National Qualification Framework, providing principles for aligning the national qualifications systems with the European one, but the development of occupational standards is slower than expected, which hinders necessary reforms (ETF, 2018<sup>[36]</sup>). The Ministry of Health, Labour and Social Protection currently publishes 30 occupational standards, of which five are related to food processing<sup>9</sup>.

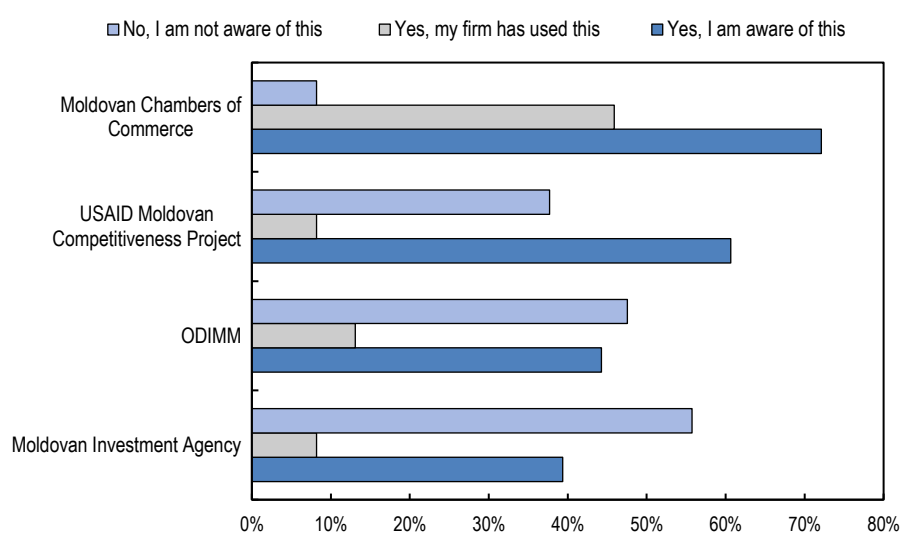
The results of the focus group meetings and interviews with relevant stakeholders also suggest that the management and marketing practices of the average Moldovan SME in the food sector are still reactive rather than proactive. SMEs need to gain an understanding of modern management methods such as knowledge of how to present their company and its capabilities effectively, how to use websites and digital marketing, how to engage with new

<sup>9</sup>[https://ism.gov.md/ro/content/standarde-ocupa%C8%9Bionale?fbclid=IwAR2ng2v-Uduq43Q1mK1TVftbXN9T3nUVPXfwL\\_maSkAwI7mbGNI3y9tJtqc](https://ism.gov.md/ro/content/standarde-ocupa%C8%9Bionale?fbclid=IwAR2ng2v-Uduq43Q1mK1TVftbXN9T3nUVPXfwL_maSkAwI7mbGNI3y9tJtqc)

buyers, how to sell and negotiate, how to conclude contracts, and how to manage business relationships.

Business development services provided by the government play a substantial role in developing the necessary managerial skills bridging skills gap. Such services are offered in Moldova already, but have a quite low penetration rate among the food processors. The OECD survey results confirm the findings of the research conducted by the OECD in 2016 (OECD, 2016<sup>[37]</sup>), and suggest that SMEs operating in food processing do not benefit from business support infrastructure. Almost 50% of interviewed SMEs were not aware of services provided by Moldova's Organisation for Small and Medium-Sized Enterprises Sector Development (ODIMM), and less than 14% had benefited from its services in the last 3 years (Figure 15). The major exception is the Moldovan Chamber of Commerce and Industry, whose services have benefited 45% of respondent firms in the last three years.

**Figure 15. Usage of business support services in Moldova**



*Note:* The survey sample is not representative of general business population in the Republic of Moldova.

*Source:* OECD Enterprise Survey (2019).

One of the reasons for limited usage of government support services might be that SMEs do not understand the value of advisory services. In addition, the results of the OECD Survey indicate that SMEs are often not aware of their own needs. Moreover, there has been limited progress in implementing the deeper reforms needed to stimulate the BDS market in Moldova, particularly the development of the more complex and higher value-added services. Information for potential consumers of BDS is currently disseminated by the Ministry of Economy, ODIMM, and business incubators in the regions, but outreach to SMEs in rural areas remains limited.

#### 4.2. Small producers struggle to supply large retailers operating in Moldova

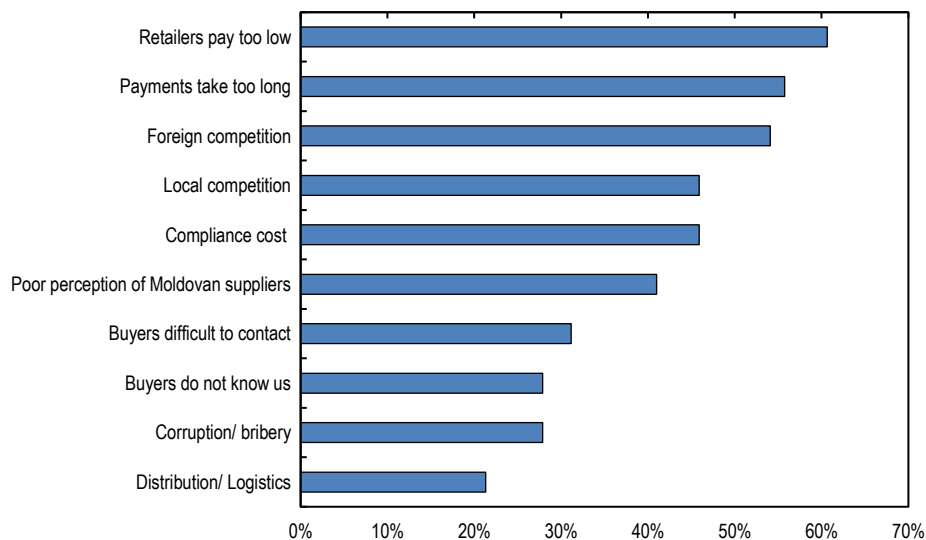
Currently, SMEs in the food-processing sector are finding it difficult to build linkages with large retailers selling in Moldova. The OECD Survey finds that only 47.5% of SMEs are selling directly to at least one of the seven major retailers, whereas 77% of interviewed companies would like to do more business with them. At the same time, in spite of the

growing interest of large retailers in Moldovan producers, impediments persist on their side as well.

### *Local producers have difficulties in connecting with retailers*

On the side of the SMEs, connecting with retailers can be difficult, time-consuming and expensive. The OECD Enterprise Survey suggests that the problem is one of marketing and communication: 31.5% of the interviewed companies found it difficult to contact buyers and 27.87% said that buyers do not know about their production. Yet when they eventually get in touch with buyers, the economic terms are not attractive for 55% of the companies in the survey, margins are too low for 60.7%, and compliance costs are high according to 45.9% of the SMEs. The survey highlighted the challenges the SMEs face in both the domestic and international markets. Often because of corruption and bribery (a barrier to linkages for 27.9% of the SMEs) and poor perception of Moldovan suppliers (according to 40.8% of the companies in the survey), the pressure of local competition is intense for 45.9% of the SMEs (Figure 16).

**Figure 16. Top ten barriers to linkages with large retailers**



*Note:* The survey sample is not representative of general business population in the Republic of Moldova.

*Source:* OECD (2019), Enterprise Survey Moldova.

However, 77% of the companies in the survey would like to increase their linkages to large retailers. The major reasons for their interest are the prospects of increased turnover, larger scale, and faster business development. Note that among the companies in the survey, 27% are both supplying a large retailer and exporting, and 72% of the respondents to the survey want to increase the volume of business with both retailers and exports.

### *Producers often struggle to adapt to supermarkets' practices and requirements*

The OECD Survey finds that, although retailers are generally interested in reaching out to local producers, suppliers frequently encounter difficulties in adjusting to the common business practices and requirements of supermarkets. For example, food processors that become retail suppliers might have to factor in the costs associated with longer payment terms and possible discounts offered on the retailers' premises. Delayed payments might expose food processors to heightened risks of cash shortages and introduce a greater variance in cash-flow, especially if their own suppliers of raw materials expect to be paid upon delivery. Moreover, supermarkets demand a regular supply of products of consistent quality, a condition that SMEs might have a hard time meeting. It is often the case that international retailers prefer to do business with local producers that obtain internationally recognised quality certificates.

The Survey also shows that firms do not perceive quality standards as a barrier to linkages – suggesting that many are not aware of their importance for the integration into GVCs. In other words, there is a discrepancy between the expectations of retailers and international buyers and the views of Moldovan suppliers with regard to quality assurance. Similar reasoning can be applied to competitiveness. From the perspective of retailers and international buyers, competitive pricing is among the top criteria for selecting suppliers: higher prices diminish interest in Moldovan products, to the advantage of foreign substitutes. The efficiency of production – i.e. reducing costs and improving performance – is thus crucial to bridging the gap between producers and retailers.

### 4.3. Access to foreign markets remains a challenge for SMEs

Increased volumes and turnover, higher quality and lower prices, and enhanced innovation and efficiency are all positive side effects of accessing foreign markets. Especially for SMEs operating in small domestic markets like Moldova, integrating in foreign markets can offer growth (OECD, 2018<sup>[38]</sup>). To realise such ambitions, it is important to facilitate SMEs' integration in global markets by removing barriers to trade, reducing the costs and time required to carry out trade procedures, investing in export promotion activities and providing financial tools to support exporting SMEs.

#### *The limited supply of export support and promotion programmes hinders SME internationalisation*

The recently established Moldovan Investment Agency (MIA) lacks both the human and the financial resources necessary to cope effectively with the needs of Moldovan businesses willing to export. Inadequate funding and lack of staff prevent the agency from expanding the range of services specifically targeted at exporting SMEs, such as training, market intelligence and consultancy services – all necessary to promote SME internationalisation. At the same time, ODIMM, the leading government institution offering training, consulting, and information support to SMEs, currently provides only informational advice for SMEs that are interested in exporting. Overall, the evidence suggests that SMEs are lacking a comprehensive form of support explicitly intended to deal with the challenges of small and medium enterprises. It is important to note that a number of donor activities and programmes aim to fill this gap (Box 3 outlines the programmes provided by the EU).



### Box 3. EU programmes enhancing SME access to markets in Moldova

#### DCFTA facilities

The DCFTA SME Direct Support Facility aims to provide support for SMEs in Eastern Partnership countries that have signed Association Agreements including a Deep and Comprehensive Free Trade Area with the EU – currently Georgia, Moldova and Ukraine. Jointly implemented under by the European Commission, the European Investment Bank and the European Bank for Reconstruction and Development (EBRD), the facilities help small businesses to grow and prepare for the new market opportunities introduced by the DCFTA, and help national authorities to implement their Association Agreements.

#### Enterprise Europe Network

Launched in 2008, the Enterprise Europe Network (EEN) helps SMEs innovate and grow internationally. This programme operates under the EU Programme for the Competitiveness of Small and Medium-sized Enterprises (COSME) and covers over 60 countries worldwide, including the six EaP countries, making it the largest support network for the internationalisation of SMEs worldwide. EEN manages Europe’s largest online database of business opportunities. SMEs can access it to look for business or academic partners abroad to manufacture, distribute, co-develop and supply ideas, goods and services.

#### EU4Business and ITC: “Eastern Partnership: Ready to Trade”

An initiative of EU4Business implemented by the International Trade Centre (ITC) since 2017, the “Eastern Partnership: Ready to Trade” project supports SME integration into GVCs with a focus on the EU, helping them comply with international requirements, linking them with buyers along the value chain, and providing cluster support. The project supports the apparel sector in Moldova, assisting exporting and export-ready SMEs in producing value-added goods in accordance with international and EU market requirements and linking with EU markets.

*Source: EC (2018), Enterprise Europe Network website, <https://een.ec.europa.eu/> (accessed on 26 July 2019); EC (2019), International cooperation and development website, [https://ec.europa.eu/europeaid/blending/dcfta-deep-and-comprehensive-free-trade-area-sme-direct-support-facility\\_en](https://ec.europa.eu/europeaid/blending/dcfta-deep-and-comprehensive-free-trade-area-sme-direct-support-facility_en), (accessed on 26 July 2019);*

Several issues might explain the overall weak exporting activity in spite of the high interest in exporting among companies. Some factors are retraceable to the lack of proper support by the Moldovan Investment Agency (and other relevant institutions) on several dimensions: improving foreign buyers’ perception of Moldovan producers; connecting local producers with potential international clients; building a strategic network of local SMEs and foreign companies and institutions; increasing the export readiness of SMEs through the provision of skills and capacity building opportunities.

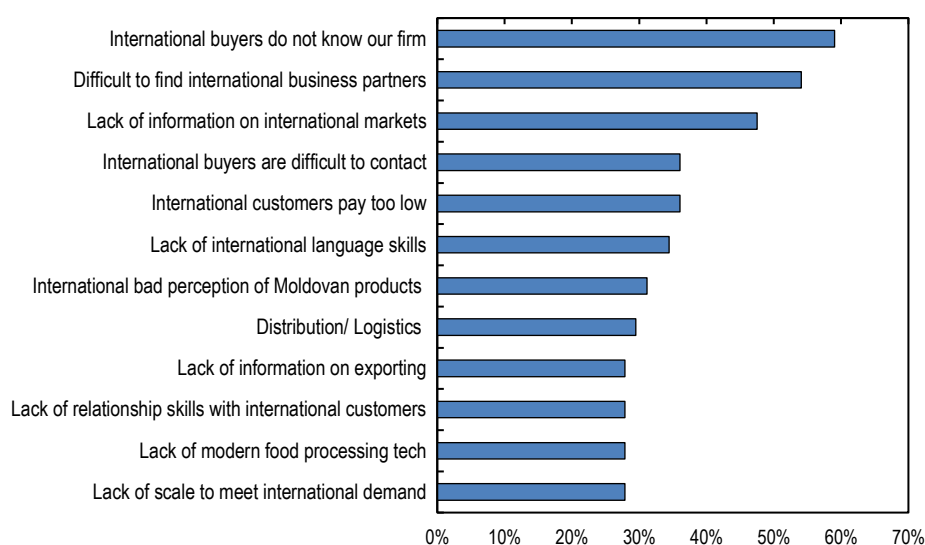
The OECD Enterprise Survey highlighted that the negative perception of Moldovan firms abroad was ranked sixth out of the 23 factors limiting the companies’ ability to export: the interviewed SMEs are under the impression that the attractiveness of Moldovan producers is low among local retailers and MNEs (Figure 17). However, as detailed in the previous chapter, this observation might be grounded not in MNEs’ actual assessment of Moldovan suppliers, but rather in the lack of effective promotion of Moldovan products. The absence of such a strategy hurts local suppliers by not raising awareness among retailers of the



existence and potential of Moldovan SMEs. Secondly, according to the OECD Enterprise Survey, local producers identify the lack of contacts in international networks as a barrier to export: 59% report that international buyers are not aware of their firm; 54% find it difficult to find international buyers; 36% encounter complications when contacting them; and 28% feel they lack the proper skills to maintain relations with international buyers. In general, SMEs lack adequate knowledge and skills needed to succeed in international markets: 48% of the interviewed SMEs cited lack of knowledge of foreign markets; 28% say they lack general information on exporting, 34% cited inadequate language skills and 25% believe they lack IT skills (OECD, 2019<sup>[31]</sup>).

**Figure 17. Top ten barriers to export**

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*Note:* The survey sample is not representative of general business population in the Republic of Moldova

*Source:* OECD (2019), Enterprise Survey, Moldova.

### ***Financial support for exporting SMEs is inadequate***

While Moldova has implemented a number of measures to facilitate access to debt finance for SMEs, there is no programme focusing on the provision of export finance. Export finance tools help companies grow and removes a significant barrier preventing them from trading in international markets. The instruments cover a broad range of services and could include export loans to finance additional working capital, export credit insurance to cover market and political risk, and export factoring to convert exporters' trade receivables into discounted liquidity (see Figure 18 for an overview of possible tools). The absence of export finance reduces the ability of small producers to safeguard against trade risks, which can otherwise drive SMEs to the margins of both domestic and foreign markets.

Figure 18. Overview on export finance instruments

	Export Working Capital	Export Credit Guarantee	Export Credit Insurance	Foreign Buyer Financing	Export Factoring, Forfeiting
<b>Financial Instruments</b>	<p>EFA provides exporters EWC funds</p> <ul style="list-style-type: none"> <li>• Possibly via commercial banks</li> <li>• Enables fulfilment of export sales orders by acquiring inputs</li> <li>• Allows exporter to offer less secure payment terms</li> </ul>	<p>EFA gives guarantees to commercial banks</p> <ul style="list-style-type: none"> <li>• Often complements EWC loans</li> <li>• Encourages lenders to offer financing to exporter</li> <li>• Allows early-stage SME to access export finance</li> </ul>	<p>EFA insures against market and political risk</p> <ul style="list-style-type: none"> <li>• Covers risk resulting in non-payment</li> <li>• Allows access to competitive financing offered in global markets</li> <li>• Increases exporter's borrowing capacity and access to riskier markets</li> </ul>	<p>EFA lends directly to importers</p> <ul style="list-style-type: none"> <li>• Appropriate if private lenders cannot bear risk</li> <li>• Direct loans to or guarantees for importers at fixed interest</li> <li>• FX risk hedging allows SMEs to export in foreign currency</li> </ul>	<p>EFA combines financing, insurance and collection</p> <ul style="list-style-type: none"> <li>• Option for SMEs during rapid growth times</li> <li>• Unsuitable for companies new to export</li> <li>• Roughly twice as expensive as credit insurance</li> </ul>
<b>Examples</b>	<ul style="list-style-type: none"> <li>• KredEx gives loans for export financing as well as for technology and capital investments</li> </ul>	<ul style="list-style-type: none"> <li>• UKEF provides guarantees to banks then offering buyers and suppliers loans</li> </ul>	<ul style="list-style-type: none"> <li>• UKEF insures exporters against non-payment risk, if private insurer refused</li> </ul>	<ul style="list-style-type: none"> <li>• UKEF and KfW IPEX offer lending directly to importers for them to purchase domestic exports</li> </ul>	<ul style="list-style-type: none"> <li>• Italian SACE transforms an exporter's trade receivables into discounted liquidity</li> </ul>

Note: EFA – export financial institution

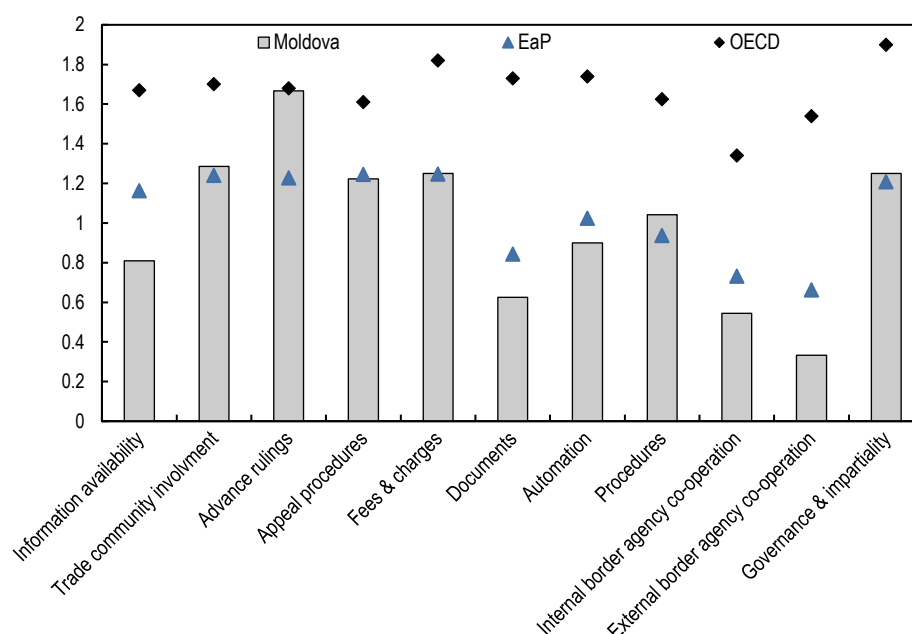
Source: OECD (2016), Monitoring Georgia's SME Development Strategy 2016-2020

### ***Border procedures remain burdensome***

Overall, the World Bank's 2020 *Doing Business* Report ranks Moldova 38<sup>th</sup> on *trading across borders*. The study reports that it takes on average 3 hours and 76 dollars to achieve border compliance, and 48 hours and 44 dollars for documentary compliance, (World Bank, 2020<sub>[111]</sub>; World Bank, 2015<sub>[39]</sub>). However, the OECD Survey finds that 26% of respondent SMEs still complain about complicated border procedures and 15% think that the tariffs and taxes to pay in international markets are an obstacle to export (OECD, 2019<sub>[31]</sub>).

There are several areas worthy of further government consideration in order to achieve optimal conditions for exporting companies. According to the OECD Trade Facilitation Indicators (TFIs), Moldova has large margin for improvements, especially when compared with the OECD average. It performs better than the other EaP economies on *advance rulings and procedure* and aligns with regional performance in terms of *trade community involvement, appeal procedures, fees and charges, governance and impartiality*. However, it lags behind with regard to *information availability, internal border agency cooperation and external border agency cooperation*, among other indicators. (OECD, 2017<sub>[40]</sub>). Figure 19 displays the overall performance of Moldova across all eleven dimensions of the OECD Trade Facilitation Indicators.

Figure 19. OECD Trade Facilitation Indicators, 2017



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

Source: OECD (2018), *OECD Trade Facilitation Indicators*, [www.oecd.org/trade/facilitation/indicators.html](http://www.oecd.org/trade/facilitation/indicators.html)

The low score on information availability is mirrored by the results of the OECD Enterprise Survey in which an average of 43% of the interviewed SMEs identified poor information on international markets as a barrier to export. The low scores on the indicators measuring internal and external border agency co-operation suggest (i) limited co-ordination among domestic border agencies, which hampers the efficiency of trade controls by requiring duplicative documentation and sequential controls; but also (ii) weak co-operation with border agencies from neighbouring and third countries, which makes cross-border trade more expensive and time-consuming.

## 5. Policy Recommendations

This section addresses policy recommendations to: (i) prepare local food processors for integration into GVCs, (ii) facilitate supply chain linkages between local food processors and supermarkets, and (iii) improve SME access to foreign markets.

### 5.1. Objective 1: Prepare local food processors for integration into GVCs

#### *Introduce financial tools to support the sector's investment and innovation activity*

Fostering the provision of financing sources by expanding the range of financial instruments for SMEs would contribute to the investment and innovation activity of Moldovan food producers. For example, expanding the scope of alternative financing methods, such as leasing and factoring could help small producers to modernise their equipment and increase their productivity.

At the same time, SMEs might benefit from the introduction of debt instruments complementary to grants, contingent on innovation and technological upgrades. One example is innovation loans at low interest rates made available to promising SMEs with riskier profiles in need of public support, so that they can capitalise on market-oriented, scalable opportunities (see Box 4 for an example of innovation-specific loan programme). Similarly, debt instruments could be introduced to promote the transition to sustainable agriculture methods. Flexible, low-interest loans could be made available specifically for SMEs willing to adopt certified environmentally sustainable practices (BIO) or willing to upgrade already BIO production processes.

#### **Box 4. Financing innovative SMEs in the United Kingdom**

In 2017, the UK government introduced Innovate UK, a financial product to support innovation by providing funding to innovative businesses while enhancing value for money for the taxpayers. Innovate UK is a governmental-backed funding opportunity open to businesses and research organisation based in the country willing to:

- research and develop processes, product or services;
- test innovative ideas; and
- collaborate with other organisations.

SMEs can participate in five competition rounds to access between GBP 100 000 and GBP 1 million. The pilot programme ran for two years and offered up to GBP 50 million (with GBP 25 million in additional funding announced in 2019). Demand for the loans has been relatively high: Innovate UK received 393 applications seeking £200 million in funding, representing four times the capital available. Project areas ranged from AI and the internet-of-things to process and manufacturing design technology (including energy efficiency, electronics, and smart infrastructure).

Programme evaluations highlighted that the innovation loan was highly relevant and filled a gap in the market: up to 95% of the interviewees reported that there was no other option

available for innovation specific purposes. The pilot turned out to be very successful and led to significant positive effects, as it accelerated or scaled up the projects in ways that would otherwise not have been possible. Almost a third of the SMEs in the survey were able to introduce new or enhanced products or services in the market; 76% had progressed a product or service toward commercialisation; and 185 new jobs were created during the time span of the pilot, with 76% attributing this increase to the loan. According to Innovate UK, no defaults have occurred to date.

Source: Innovate UK, <https://www.gov.uk/government/organisations/innovate-uk>; SQW (2019), Evaluation of Innovation Loans, <https://www.gov.uk/government/publications/evaluation-of-innovation-loans-interim-report>

### *Promote cluster development in the agrifood sector*

The duality of Moldova's food processing sector, calls for policies promoting the medium- and long-term viability and competitiveness of smaller producers. Promoting and supporting cluster development could increase the innovation activity of local producers, enhance co-operation among primary producers, food processors and research institutions, and ultimately increase the competitiveness of the food sector.

In general, creation of clusters should not be government-driven, and should result from market-led initiatives. However, the absence of clusters and weak networks and partnerships in Moldova calls for policy initiatives that would stimulate the uptake of clusters and promote co-operation and joint actions.

As a first step, the government could organise existing policies on crucial areas (e.g., innovation, internationalisation, investment attraction, etc.) around cluster strategies. In other words, cluster strategies should be integrated into, and implemented in parallel with, programmes and tools that have similar objectives. Active collaboration between relevant government institutions (e.g. ODIMM, Moldovan Investment Agency, Moldovan Innovation Agency, business incubators) and a joint approach to cluster strategies are preconditions for successful cluster development. For example, services provided by business incubators, support for trade missions and international exhibitions, and training services should also target networks of companies and clusters.

In addition, the government can put in place a number of pro-active targeted policies and programmes that will boost the development of clusters around export-oriented products. However, the government should not lead the cluster initiatives, but act as a catalyst and broker. According to the European Cluster Observatory, such initiatives may include: (i) market intelligence – identifying opportunities in other industries, (ii) matchmaking – finding relevant business partners, and (iii) project development – translating market intelligence and matchmaking into cross-sectoral actions (European Union, 2016<sup>[41]</sup>).

Even though membership fees are an important source of cluster financing, nascent or emergent clusters will need external support to finance cluster activities. By helping them to identify and secure multi-year funding, the government can facilitate their long-term viability and ability to establish themselves. One way to encourage collaboration amongst firms and achieve economies of scale is to direct funding only to multi-firm proposals. Box 5 provides examples of such programmes implemented in Poland.

### Box 5. Promoting cluster development in Czech Republic and Poland

In **Czech Republic**, the government supports the establishment and development of clusters on the regional and cross-regional levels by offering grants for infrastructure, disbursing funds aimed at fostering inter-firm co-operation and by targeting entrepreneurial co-operation and SME development. It co-operates with the National Cluster Association (NCA) which brings together cluster organizations and cluster-supportive bodies with the purpose to coordinate the sustainable development of cluster initiatives and to develop cluster policy on the basis of concentration of knowledge, experience and expertise.

In **Poland**, rural clusters emerged in the Lubelski region to increase agricultural productivity and improve the situation of farmers. Around the area, 54% of its inhabitants live in the countryside and there are about 110 groups of rural producers organised as legal entities (in the form of associations) whose main aim is marketing their members' products. The associations, as forms of a cluster-structure, often organise training courses for their members, and co-operate with universities and other associations. The associations also work on obtaining quality certificates for their products.

*Source:* OECD (2005), Business Clusters: Promoting Enterprise in Central and Eastern Europe, Local Economic and Employment Development (LEED), OECD Publishing, Paris, <https://doi.org/10.1787/9789264007116-en>; OECD (2008), Enhancing the Role of SMEs in Global Value Chains, OECD Publishing, Paris, <https://doi.org/10.1787/9789264051034-en>; FAO (2010), Agro-based clusters in developing countries: staying competitive in a globalized economy, <http://www.fao.org/sustainable-food-value-chains/library/details/en/c/267092/>; Cluster Collaboration.eu (2019), National Cluster Association of the Czech Republic (NCA), <https://www.clustercollaboration.eu/cluster-networks/national-cluster-association-czech-republic-nca>

### *Continue aligning food safety legislation according to the Association Agreement with the EU*

The legislative framework, as well as the administrative and institutional infrastructures, need continuous development and adaptation to the Association Agreement with the EU. Moldova has been approximating its legislation in recent years and should continue to do so within the framework of the DCFTA. In particular, it is important to improve the observance of food safety standards in order to promote trade with the EU. Therefore, it is crucial to continue investing in the necessary infrastructure (e.g. accredited laboratories for animal health) and institutional frameworks to achieve the certifications required to expand the basket of goods exportable to the EU. This effort should be overseen and its implementation independently monitored by ANSA. In line with the support programme implemented by GIZ<sup>10</sup>, it is decisive to enhance capacities of ANSA's ability to effectively implement its task: *(i)* training should be provided to staff and inspectors, *(ii)* working procedures should be introduced to ensure standardised controls, and *(iii)* internal audits should be routinely carried out to promote the independency and the transparency of official controls.

<sup>10</sup> For more information on the programme supported by GIZ "Improving food safety in the Republic of Moldova", see: <https://www.giz.de/en/worldwide/35460.html>.

### *Increase SMEs' awareness of, and readiness to implement, food safety measures*

To increase the awareness and capabilities of food producers to implement food safety measures, training courses should be made available online and offline, should be held frequently at regional and local venues, and should be open to both management and staff of SMEs (see Box 6 for an example of government-sponsored training services). To enhance its value, the training should cover best practices in handling, storage and preparation of food and be specific to the food-processing industry. For SMEs interested in integrating into MNE supply chains, training should focus on the requirements of retailers, and on good practices for meeting them. For SMEs interested in exporting to the European Union, training should provide detailed information on the requirements of the EU markets and provide additional sources of support like the EU Trade Helpdesk (<https://trade.ec.europa.eu/tradehelp>).

Sometimes, even if entrepreneurs recognise the importance of food safety measures, their implementation ends up being a substantial burden on the finances of the SME. It is thus important that food safety requirements and support are designed with duly consideration of the limited resources of SMEs.

#### **Box 6. Government-sponsored training on food safety standards in Poland**

The Polish accession to the European Union, which formally entered into force in 2004, required Poland to restructure and modernize its agriculture sector according to the agricultural policy guidelines set by the EU. The adaptation process relied heavily on the Agency for Restructuring and Modernising Agriculture (*Agencja Restrukturyzacji I Modernizacji Rolnictwa*) and on Farm Counselling Centres (*Osrodki Doradztwa Rolniczego*, or ODR), a network of around 310 counselling groups spread around Poland and run by a pool of 1000 specialists. The Centres were designed to provide socioeconomic counselling specifically for the rural population, support the acquisition of new qualifications by rural agricultural workers, and disseminate information on the new legal, fiscal, financial and agricultural frameworks and associated regulations. They supported farmers by raising awareness about food safety and related issues; facilitating the adaptation process while promoting modernisation of enhanced productivity, and so on.

When addressing food safety measures, the governments' approach encompassed every activity of the food value chain, from controlling agricultural raw materials to training practitioners in the food processing sector. Training in food safety was made available at the post-graduate level for skilled workers in agriculture, industry and official food control agencies. For the food processing sector, education was provided by both governmental and non-governmental institutions and associations, such as the Central Technical Organization and the Association of Engineers and Technicians of Food Industry. The government further participated in the awareness-raising process by training and inserting official food-control practitioners (e.g. sanitary inspectors, veterinary inspectors and inspectors of agricultural products) and by engaging in intense communication campaigns. It provided information through official food control services, consumer organisations (such as the Office of Protection of Competition and Consumers) and spokespersons of various ministries.



Source: Centrum Doradztwa Rolniczego (2019), <https://www.cdr.gov.pl/informacje-branzowe/osrodki-doradztwa-rolniczego> ; FAO (2002), System of Food Safety in Poland present situation and prospects for change, <http://www.fao.org/3/X6912E/X6912E.htm#II>.

*Develop occupational standards and increase the involvement of the private sector in training delivery*

The divergence between the skill endowments of the labour force and the needs of businesses requires the development of occupational standards and the close collaboration between public and private sectors in the design and delivery of vocational education and training. In this respect, the cooperation between the Ministry of Education, the Ministry of Economy, ODIMM, representatives of sector associations, and vocational and higher education groups is necessary to fill the gaps. Joint efforts could aim at setting occupational standards for the sector and improving school curricula to equip students with desirable skills, and ensure a better transition between school and the job market. In order to foster this outcome, it is important that capacity for curriculum reform, teacher development and school governance is developed at the national administration level. At the same time, financing schemes to support those SMEs offering vocational training of new hires could help addressing the double-edged issue of emigration and lack of skills.

*Improve the supply of and stimulate demand for BDS that enhance entrepreneurial skills*

ODIMM could ensure adequate provision of business development services (BDS) in terms of volume and quality through public and public-private programmes. In particular programmes improving general entrepreneurial skills could be made available and accessible to a broader range of SMEs. Public BDS should be designed and offered to complement the private provision, rather than crowding it out. Such services could provide opportunities for training, advisory, and networking both online and offline. Namely, e-learning programmes, online forums and platforms, and business accelerators could all be forms of support provided specifically for SMEs. Concerning the food-processing sector, training support should also target SME abilities to cope with food quality and safety standards required by international markets.

At the same time, demand for such services should be stimulated, particularly among SMEs. Often entrepreneurs refrain from taking up BDS for lack of skills or ambition to grow and develop their businesses. Lack of awareness of the availability of such services, the perception of public BDS as being inefficient, the requirement to invest further to implement the actions recommended by advisors, or simply the desire not to expand beyond a certain level cast doubts on the value added by BDS. Consequently, it is important that demand is encouraged by spreading information through awareness-raising campaigns, by designing the service provision in line with specific business profiles, and by leveraging business networks (i.e., regional clusters or Chambers of Commerce) to endorse and spread BDS.



## 5.2. Objective 2: Promote supply chain linkages between local food processors and supermarkets

*Implement targeted programmes to enhance the supply chain linkages between processors and retailers*

The government could encourage retailers to turn to local suppliers by providing information and contacts of local producers and by increasing the abilities of local producers to do business with supermarkets. Careful data harvesting should be promoted to build national databases and registries containing detailed information on local SMEs and that is made publicly available. Furthermore, it would be helpful if the Moldovan government (i) provided business matchmaking services to facilitate supply chain linkages and (ii) led efforts to fill the gaps by testing and increasing the capabilities of local suppliers beforehand. Chapter 6 of this report offers a programme proposal that could help Moldova in implementing such a programme; and Box 7 describes a successful linkages programme in Ireland that could serve as a useful example for Moldova.

### **Box 7. MNE-SME developmental linkages in Ireland**

In Ireland, the National Linkage Programme (NLP) is widely regarded as a successful model of FDI attraction and local companies' development. Launched in 1985, it was part of an overall industrial development strategy aimed at helping local companies upgrade so they could become suppliers of large national and international buyers. In particular, it sought to maximise the local sourcing of services and products by the manufacturing industry. After initially focusing on identifying and pursuing potential linkages in the electronics sector only, it then expanded its scope to include enterprises active in engineering, chemical, pharmaceuticals, and food and consumer products.

The NLP conducted thorough market research to assess potential linkage opportunities between SMEs and MNEs and identify the potential actors on either side. It then helped select, support, and monitor the development of a small set of domestic companies (mostly SMEs) while identifying potential buyer companies in a variety of sectors. The multinational companies supported the NLP's development activities (e.g. seminars, sector review studies).

The NLP also performed "matchmaking" activities to help SMEs minimise obstacles and reach subcontracting agreements. SMEs would be supported in navigating the requirements and objectives of the buyers while being advised on how best to upgrade (e.g. strengthening management, accounting, quality controls). The NLP also offered SMEs state assistance programmes aimed at enhancing their technical, financial, and managerial capabilities.

In terms of results, the NLP helped boost the foreign purchase of Irish raw materials from GBP 438 million to GBP 811 million, and purchases of services from GBP 980 million to GBP 1,461 million. It facilitated more than 250 linkages between foreign MNEs and large Irish companies to identify business opportunities for more local suppliers. Suppliers saw their sales increase by 83%, productivity by 36% and employment by 33%. SMEs became part of the supply chain of companies such as Apple, Dell, and IBM. As more than 80% of the suppliers achieved ISO 9000 registration, they also became eligible to join international procurement panels and accessed new export markets.

Source: Battat, J. et al. (1996), Suppliers to Multinationals. Linkage Programs to Strengthen Local Companies in Developing Countries, Foreign Investment Advisory Service, Occasional Paper 6, International Finance Corporation and The World Bank, <http://documents.worldbank.org/curated/en/253681468762361269/pdf/multi0page.pdf> ; OECD (2005), Encouraging linkages between small and medium-sized companies and multinational enterprises, <http://www.oecd.org/daf/inv/investmentfordevelopment/35795105.pdf> ; Hynes, K., Kwan, Y. K., Foley, A. (2017), Local linkages: the interdependence of foreign and domestic firms, [http://www.ucd.ie/t4cms/wp17\\_12.pdf](http://www.ucd.ie/t4cms/wp17_12.pdf) .

### *Stimulate domestic demand for Moldovan food products*

The government in co-operation with the business associations, the producers and other stakeholders could work together to raise the profile of Moldovan food products by marketing and branding activities. The government could also consider initiatives to encourage local consumers to purchase locally produced food and promote Moldovan food products in international markets (see Box 8 for an example of quality branding of local products).

#### **Box 8. Increasing attractiveness of domestically produced food products in the Slovak Republic**

In 2004, accession to the EU offered the Slovak Republic both the opportunities of the internal EU market and the challenges of increased competition. To address the latter, the Ministry of Agriculture and Rural Development launched “Quality Label”, a programme that incentivises consumption preferences for local products by enhancing their competitiveness.

Quality Label is a brand that distinguish local products from foreign ones. By certifying that local products carrying its mark have been produced according to the requirements of both the brand and the EU, it clearly signals their high quality.

Any Slovak producer can apply to receive the brand. To be considered, manufactures must employ domestic raw materials in the production process (for at least 75% of the total raw material used), adhere to declared technological processes and quality and food-safety standards, and carry out all stages of the production process on Slovak soil. An expert committee appointed by the Ministry of Agriculture and Rural Development assesses each application and recommends which manufacturers the Ministry should award the brand to. Awardees can begin using the Quality Label mark on their products as soon as they receive it. Alongside the Quality Label, a GOLD Quality Label awards products with above-standard quality parameters. The awarding process takes place multiple times a year and it is free of charge for applicants.

Source: Značka kvality (2019), <http://www.znackakvality.sk/index.php?pl=17>.

### *Encourage the creation of linkages between SMEs and supermarkets*

Linkages can be also promoted by tackling directly the interest of multinational supermarkets. In particular, fiscal measures and tax incentive schemes directed at supermarket chains willing to engage with local SMEs could encourage creation of such linkages. Such fiscal and non-fiscal incentives could be targeted at reducing the costs of

investors when engaging in capacity building of local suppliers through training, mentoring, or staff secondment (for an example see Box 9).

#### **Box 9. Using tax incentives to promote SME-MNE linkages**

In **Malaysia**, the Industrial Linkage Programme allows investors to claim tax deductions for costs involved in providing support to local suppliers, including training, product development and testing, and factory auditing to ensure local supplier quality. In order to be qualified for the incentives, SMEs must manufacture products or undertake activities in the List of Promoted Activities and Products in an ILP. They should also be supplying to TNCs or large companies. One of the ILPs recent successes is the increased sourcing of local food-processing SMEs by international retailers such as Tesco. SME Corp has agreed with Tesco on strict assessment criteria under the ILP, which has helped ensure that linkages are mutually beneficial. In this arrangement, only SMEs that receive three "stars" or above according to their SCORE rating are eligible to become ILP suppliers to Tesco. Once SMEs are taken on as suppliers by Tesco, they benefit from the TNC's targeted efforts to help them meet global standards by producing consistent and quality goods. In addition, Tesco often takes top firms abroad, helping to open markets for them in Europe and the United States.

*Source:* OECD Investment Policy Reviews: Southeast Asia; UNCTAD (2011).

### **5.3. Objective 3: Improve SME access to foreign markets**

#### *Expand the provision of export support and promotion services*

The optimal range of export promotion and support services provided by the Moldovan Investment Agency (MIA) would address information asymmetries faced by SMEs, their limited capacity to comply with international quality standards, the challenges they face in connecting with international buyers (and suppliers), and their lack of financial resources to engage in international trade. Furthermore, MIA can influence the image of a country abroad, and thus its firms, by emphasising their competitive advantages. It is thus paramount that MIA invests sufficiently in branding activities promoting Moldovan firms and products (Box 10 provides examples of such activities in the EaP region). To enable these efforts, the government would need to endow MIA with sufficient resources (in terms of funds and human resources) to meet its targets.

In parallel, ODIMM could extend its range of services to support export readiness – services designed according to the specific needs of SMEs. Export-readiness programmes should provide assistance with designing international marketing plans; market research to support market entry and export strategies; and information on business practices, distributing channels, and necessary skills. It is necessary that the areas of activity and institutional responsibilities of the two agencies, ODIMM and MIA, are well defined and complementary to one another. The former would sustain SMEs in building their capacities with a view to exporting abroad, whereas MIA would act as an enabler of export to foreign markets.

### Box 10. Export promotion in the Eastern Partnership region

#### Produce in Georgia

In 2014, the Ministry of Economy and Sustainable Development in collaboration with the Ministry of Agriculture launched *Produce in Georgia*, a programme aimed at stimulating the entrepreneurial activity in the country. The implementing partner is Enterprise Georgia, in charge of business support, export promotion and attracting investments. Its activity for export promotion are diverse and all aimed at enhancing the competitiveness of local products and the scale of goods devoted to international markets. Among the other forms of support, *Produce in Georgia* promotes international exhibition, trade missions, and the registration of companies on its interactive trading platform. The platform is called "Trade with Georgia", a window on Georgian firms and products apt for international exports, on the knowledge necessary for exporting (e.g. documentation and certifications necessary for exports from Georgia), and on the events relevant for international audiences. Finally, *Produce in Georgia* provides education and training to equip of export managers working with Georgian companies with the necessary skills for export.

#### Made in Azerbaijan

In 2016, Azerbaijan started to implement the "Made in Azerbaijan", a programme intended for the large scale promotion of local products in foreign markets. The decree envisions ten different form supports to exports: from conducting market research, to ensuring participation at trade missions and international fairs, to obtaining international certificates. The initiative is implemented by AZPROMO, a unique "one-stop shop" body that established with the goal to contribute to economic development through attracting foreign investments and stimulating exports in the non-oil sector.

Source: Enterprise Georgia (2019), <http://www.enterprisegeorgia.gov.ge/en/about>; Trade with Georgia (2019) <http://www.tradewithgeorgia.com/>; Made in Azerbaijan (2019), <https://madeinazerbaijan.com/>

#### *Provide and expand financial support for exporting SMEs*

The SME Development Strategy and its 2018- 2020 Action plan do not include specific measures aimed at providing targeted financial support for exporting SMEs. However, to promote SME access to foreign markets, the government could consider providing targeted financial instruments to help SMEs overcome barriers and risks associated with exporting, such as long cash-flow cycles and currency risks. Instruments such as export financing and export insurance (see Box 11 for an example from the Slovak Republic) could boost the ability of local producers to trade internationally.

### Box 11. Export credit financing in the Slovak Republic

In the **Slovak Republic**, the Export and Import Bank (EXIMBANKA) is an Export-Credit agency, a specialised financial institution of the state that offers instruments to support exports. EXIMBANKA targets especially Slovak SMEs willing to start exporting or expanding the volumes of exports, and it intervenes to allow market entry of Slovak exporters even under conditions in which the level of risks is too high for commercial

banks. Its services range from banking products to consulting, a package of tools that SMEs can combine to maximise. In particular, EXIMBANKA offers:

- **Export financing** delivered to the large or small-medium enterprise willing to export to foreign markets. Among the instruments, the bank offers direct credits, refinancing credits, and guaranteed products (e.g., payment and non-payment bank guarantee).
- **Export insurance** to eliminate risks related to uncertainty of the side of the foreign markets (e.g., insolvency of foreign buyer, political and economic risks, etc.). Among the others, there are insurance packages specifically designed for SMEs and concessional loans to foreign buyers in selected developing countries.
- **Consulting** services free of charge and tailored to the particular situation of the applicant to suggest the best tools to adopt to finance the exporting activity.

In 2018, the European Investment Bank (EIB) agreed to fund the activities of EXIMBANKA, thus supporting the implementation of the government's development policies related to exports. In particular, the project with EIB consists of dedicated EIB credit lines to exporting SMEs.

Source: EXIMBANKA (2019), [https://www.eximbanka.sk/en/english.html?page\\_id=93](https://www.eximbanka.sk/en/english.html?page_id=93); EIB (2018), Eximbanka loan for SMEs and Mid-Caps. Project summary, <https://www.eib.org/en/projects/pipelines/all/20180112>

### *Simplify border procedures and reduce administrative barriers to export*

The government could reduce the administrative and regulatory barriers to trade by streamlining formalities and improving their digitalisation. For example, the introduction of an online “single window” for exporting procedures would significantly reduce the time required to carry out trade processes. Transparency of the trade procedures should be ensured at every step of the process to foster trade and investments. This would reduce bureaucratic redundancy, which is both costly and time-consuming for exporting firms; it would also foster transparent and predictable custom procedures, thus encouraging cross-border activity. Internal and external border agency co-operation could be promoted to facilitate SME access to foreign markets. To achieve such objectives, the government could start implementing a co-ordination strategy. Measures addressing internal co-operation could include the harmonisation of data requirements, data and information sharing, collaborative risks analysis and regular inter agency meetings.

## 6. Programme Proposal: The Linkages Development Programme

*This peer review note aimed at assessing the status of the linkages between local producers and retailers, and highlight strategic policy recommendations that the government could follow to achieve its objectives. In addition, ODIMM requested the OECD to develop a proposal for the support programme fostering the integration of local producers in the supply chain of the retailers.*

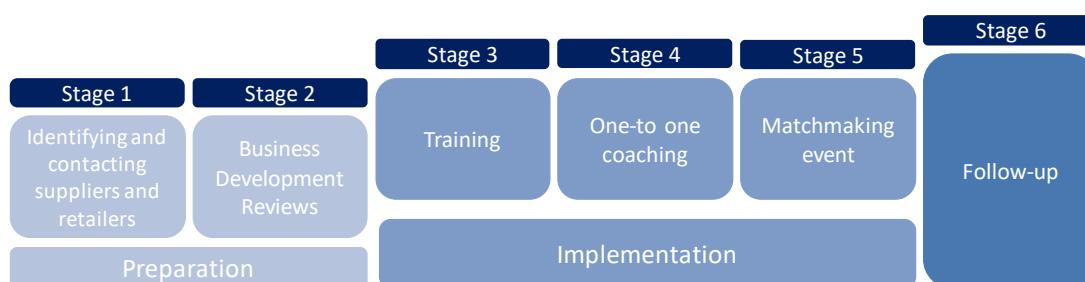
### 6.1. Programme overview

More than 50% of the respondent firms in the OECD Survey of food-processing companies in Moldova reported that they did not supply any of the large food retail chains operating in Moldova. However, the survey results and interviews with retailers suggest that there is mutual interest in enhancing business linkages. To facilitate the uptake of business relations, the government intends to implement a support programme that would promote supply chain linkages between local food producers and supermarkets by enhancing the capacities of local producers to supply large retailers and providing a platform for interaction between Moldovan food producers and retailers. The programme proposal that follows below is intended to guide the implementation of such a programme.

The overarching objective of the pilot Linkages Development Programme (henceforth referred to as the Programme) is to strengthen business linkages between food processing companies and food retailers in Moldova with the aim of increasing the number of SMEs selling to retailers and of raising the amount of sales of Moldovan processed food products. Other expected positive outcomes include increased competitiveness of participating SMEs and readiness to access international markets. The Programme will consist of (1) preparatory, (2) implementation, and (3) follow-up and monitoring phases that can be broken down into six stages (Figure 20). Participation in the Programme will: (i) endow producers with the necessary skills to engage with and integrate in GVCs; and (ii) facilitate interaction between potential business partners, with the aim of building linkages between SMEs and retailers.

It is proposed to entrust ODIMM, guided by a Steering Group, with the Programme's implementation for the expected period of approximately nine months. It is expected that 20 local producers will take part to the programme.

**Figure 20. Stages of the pilot Linkages Development Programme**

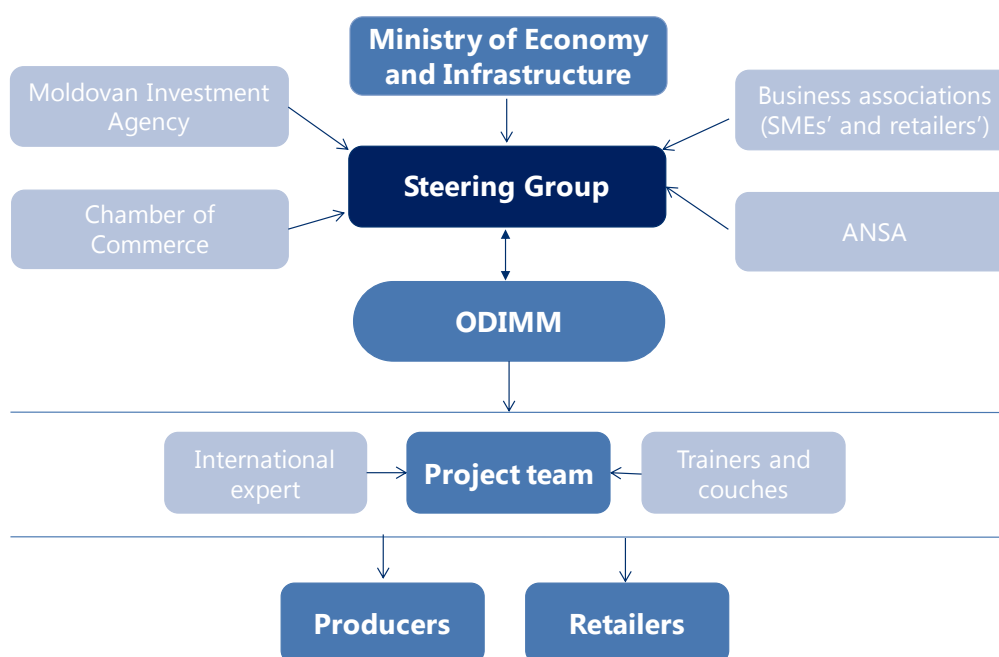


## 6.2. Governance

It is recommended to establish a Steering Group to oversee the implementation of the Programme, provide direction and advice to the management team, and ensure an adequate endowment of resources for the Programme's successful delivery. While chaired by a senior official from the Ministry of Economy and Infrastructure, the Steering Group should be balanced between private-sector representatives and government institutions that are responsible for private sector development. It is recommended that the Steering Group meet every 2-3 months. In addition, the project team will have to regularly co-operate with institutions that will not be Steering Group members, but are relevant for the implementation of the Programme (e.g. the Moldovan Innovation Agency). Figure 21 depicts the possible governance structure of the Programme.



**Figure 21. Example of the Programme's governance structure**



### *Project team*

The staffing of the project is conditional on the available budget and resources and on the management model the government wishes to adopt. Nonetheless, it is recommended that the Project Team consist of two main members responsible for the day-to-day implementation of the project: the Project Manager and the Senior Consultant, supported by an International Adviser and a small group of Trainers / Coaches (Table 5 outlines the main responsibilities of the Project Team members).

The two National Project Team members could be staff seconded from ODIMM and/or MoEI. This probably represents the ideal solution to ensure knowledge retention within the government agencies, for continuity and sustainability of the programme. It would also help build capacity within the government agencies for the implementation of a practical business development project.



**Table 5. Responsibilities of the project team members**

	Role	Responsibilities	Estimated time input
<b>Core Project Team</b>	Project Manager	Planning overall execution of the project; drafting the work plan; organising and supervising operations within the agreed timeframe and budget; control of risk and contingency planning; identifying suitable trainers and coaches; supervising and ensuring smooth implementation of all the project activities; identifying and approaching retailers reporting to steering group; designing the training and coaching programmes; planning future activities.	70 days
	Senior Consultant	Supporting the Project Manager; communication with food processors; conducting business development reviews and analysing its outputs; organising the trainings and ensuring participation; conducting follow-up with all the participants; drafting the final report.	90 days
<b>External team members</b>	International Adviser	Sharing good practices from international linkages projects; guiding the Project Team; advising the customisation of the business development reviews and reviewing its outputs; advising on design of the training and coaching sessions, and advising on suitability of trainers and coaches; making recommendations on future activities.	15 days
	~ 6 Trainers	Design, development and delivery of 6 to 8 training sessions (x ½ day each).	~18 days
	1 or 2 Coaches	Preparation and delivery of customised coaching sessions (2-3 coaching sessions per company).	18-26 days

### 6.3. Activities

#### *Preparatory phase*

##### *Stage 1: Identifying and contacting retailers and suppliers*

###### *a. Identifying and contacting retailers*

To begin with, the Project Team could contact food retail chains operating in Moldova (supermarkets' headquarters) to inform them about the project and encourage their participation. Several major Moldovan retailers have already been approached through the OECD project and have indicated their interest in participating in the Programme (e.g. Metro Cash&Carry, Linella, Fourchette).

An inception meeting should be arranged with each supermarket to explain the purpose of the Programme, outline its methodology, highlight its benefits for retailers and secure the supermarket's commitment to participate in the Programme.

###### *b. Identifying and contacting suppliers*

The Project Team proceeds to the identification and selection of the suppliers most suitable for the Programme and the building of linkages with retailers. It is of great importance that potential participants not only fulfil formal criteria, but understand both the benefits and the requirements of the Programme and are willing to complete all its implementation stages.

The group of suppliers should comprise Moldovan SMEs with the potential to be integrated into the supply chain of the selected retailers. The optimal selection of the SMEs follows a set of criteria conducive to the success of the pilot programme. These criteria might include:

- involvement in the processing of fruits and vegetables;
- interest in doing more business with retailers; and
- size (non-micro enterprises, e.g. 10 or more employees).

After identifying the companies, the Project Team should contact each one (at the managing director level) to confirm it meets the selection criteria and enquire whether it is interested in participating in the pilot programme. Following this, an inception meeting should be arranged to explain the programme to the company's director and secure its buy-in. It is expected that **20 food processors** will enter Stage 2 of the programme.

### *Stage 2: Business Development Reviews*

The selected companies with demonstrated commitment to participate in the pilot programme should undergo a business development review (BDR) to assess their readiness and to help identify their international business development needs. This stage acts as a filter, ensuring that the resources of the pilot programme are devoted to companies with the potential to pursue linkages with the retailers. It is articulated in two steps: (1) baseline data gathering and (2) in-depth company assessment.

The BDR process would enable managers to identify areas in need of improvement and support. At the same time, it would help the Project Team to build their relationship with the company and understand each company's challenges and opportunities. In general, it highlights issues that need to be tackled to improve competitiveness at the company and sectoral levels.

#### *a. Baseline data gathering*

Gathering baseline data at the beginning of the Programme would help in measuring its effectiveness at its end. Data would be gathered through a questionnaire distributed in the inception phase. Relevant information could include:

- total turnover of the company in the previous two financial years;
- number of full-time and seasonal staff employed in the last two years;
- value of sales to any retailers in the previous two financial years;
- number of obtained international standards and certificates; and
- value of exports in the previous two financial years.

#### *b. A qualitative company assessment*

An in-depth, qualitative assessment of the capacities of the SMEs would provide an initial understanding of the companies with the highest potential and a base on which to tailor the training in the next stages. A questionnaire on the maturity and performance of the companies would provide information on, for example:

- strategy and planning;
- leadership and management;
- marketing and sales;
- quality and production;
- staffing and development; and
- financial review and analysis.

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### *Implementation phase*

The implementation phase aims at developing the capacities of the companies filtered through the BDR, according to their specific performance gaps in order to meet the supply chain needs and successfully trade with retailers. It is articulated in three stages: (1) training programme, (2) one-to-one coaching, and (3) matchmaking event.

#### *Stage 3: Training programme*

Companies that successfully passed the BDR process can benefit from a training programme adjusted to their needs. The main purpose of the training stage is to fill their capacity gaps.

A team of experienced trainers with expertise in the relevant subject areas (i.e. strategy, financial management or sales) should deliver the training. Ideally, the trainers would have demonstrated experience working with SMEs, and are able to deliver a blend of theoretical and practical workshops with an abundance of case studies to draw lessons from. Training sessions could cover a range of topics related to the competitiveness of SMEs – for example, strategy and planning, leadership and management, customer orientation, quality and operations, financial management, and selling to retailers. The workshops should include training in making successful sales pitches and crafting optimal branding strategies (e.g. updated website pages, social media profiles, presentation pitch, product samples).

The training programme should comprise 6-8 modules to allow enough time for the trainers to cover the most important aspects of SME readiness to tap global value chains. Assuming there are 16-20 companies participating in this stage of the programme, it is recommended to split the group into two groups to ensure an optimal participant/tutor ratio. Running the same training at two different times also enables companies who might have legitimate business-related obligations outside the programme to attend a session instead of missing it. Companies should be able to send one or two members of their management teams, who would be expected to attend all of the training sessions.

Before the training starts, it is recommended to organise a meeting with all the trainers to explain the objectives of the programme and its specific features, and to agree on the methodologies adopted in light of the successful running of the program. After each workshop, the trainer should provide their feedback on the participation and discuss the capability of each company with the Project Manager.

#### *Stage 4: One-to-one coaching*

After (or during) the training programme, it is recommended to hold one-to-one coaching sessions between SME managers and coaches. This allows companies to receive advice tailored to their individual needs and to voice any concerns in a more confidential setting. These meetings could be two hours long and held twice for each company. The first meeting would focus on the development of tailored action plans to implement throughout the programme. The second meeting would help companies fine-tune their action plans, measure progress towards their goals, and prepare their sales pitches for the meetings with retailers during the next stage of the pilot programme.

It is recommended that the coaching sessions be held within 10-14 days after the completion of the training modules, and that they be led by the consultants/trainers

responsible for delivering the strategy session and the sales session. After each session, the coach should prepare a short report for the Project Manager.

#### *Stage 5: Matchmaking event*

The climax of the pilot programme is a matchmaking event, which would deliver a series of one-on-one meetings between suppliers and supermarkets. Ahead of the event, it is recommended to hold two briefing meetings, one for the retailers and one for the suppliers. It is crucial that retailers grasp fully the rationale and the objectives of the programme, the benefits for the SMEs and for the regional development at large, and the development work conducted up until that point with the SMEs. At the same time, it is important to ensure the same understanding on the side of the suppliers, for instance on the requirements and expectations of the retailers.

Ahead of the event, each supplier will be asked to complete a one-page company profile, which will be included in the delegate pack. The company's business coach will help the company develop its profile during one of the coaching sessions.

The event will consist of one-on-one meetings between retailers and supermarkets. Each meeting will last maximum 15 minutes, during which suppliers should: (i) introduce the company, (ii) make a brief pitch, (iii) show product samples, (iv) ask questions, and (v) enquire about the possibility of future collaboration. Between each meeting, retailers and suppliers will have a short time to take notes and draw conclusions of each meeting. It is important that each retailer meets with each supplier participating in the event. It is recommended that at least **five supermarkets** participate in the event together with **16-20 suppliers**.

It is recommended to complement the meetings with a networking event during which retailers and suppliers can introduce themselves in a more informal setting and offer the opportunity for individual meetings. The Project Team should capture formal feedback on the event through feedback forms submitted to both suppliers and retailers before the end of the event.

#### *Stage 6: Follow-up*

After the completion of the Implementation phase (i.e. after the matchmaking event), the Project Team should conduct two rounds of follow-up communication with all participating suppliers (two weeks and two months after the event) to obtain their feedback on the meetings with retailers and the overall feedback on the Programme. Each supplier should be asked to fill a questionnaire to provide feedback on the quality of trainings and coaching sessions. If Programme's resources permit, it is recommended to hold one more one-on-one coaching session with each supplier to discuss the action plan for setting-up business linkages with supermarkets. The Project Team should also contact the retailers at least once after the event to get their feedback and encourage them to make contact with any suppliers they were interested in.

Conducting these follow up sessions with the suppliers and buyers will encourage the participants to get in contact and arrange meetings.

## 6.4. Monitoring and evaluation

Systematic monitoring and well-planned evaluation should be an integral part of the Programme. It ought to be based on measurable indicators and on the level of satisfaction

of the beneficiaries. It would not only provide a measure of the progress toward targets and objectives, but also the inputs required for the implementation of the second round of the Programme.

During the implementation of the Programme, the Project Team should keep records on process indicators such as: *(i)* number of business reviews conducted, *(ii)* number of SMEs accepted into the Programme, *(iii)* number of participants attending each training session, *(iv)* level of satisfaction of participants with trainings and coaching sessions.

Monitoring and evaluation would start before the implementation of the programme and would continue in the subsequent months and years against a set of key performance indicators (KPIs). Relevant KPIs should be collected during the Business Development Reviews (Stage 2) and continue for 2-3 years after the full implementation of the programme. It should measure the outcomes for the beneficiaries and assess the effectiveness of the programme in supporting supplier development and creating supply chain linkages. 6 provides examples of relevant KPIs to monitor impact of the Programme on suppliers' operations and performance. Despite it is difficult to single out the impact of the Programme from other external factors, such as overall trends in the food-processing and retail sector, it would allow the Project Team, Steering Group members and donors to compare the performance of companies that took part in the programme with those who did not, and with overall developments in the sector.

**Table 6. Examples of KPIs to monitor the results and impact of the programme**

Target	KPIs
Boost linkages with supermarkets	Value of total sales to supermarkets operating in Moldova
	Number of products supplied to supermarkets operating in Moldova
	Turnover coming from producing under the supermarkets' brands
	Number of supermarkets supplied by the company
Increase exports	Value of exports
	Value of exports to the EU
	Number of countries that the company exports to
Encourage company's growth	Total turnover of the company
	Number of full-time staff employed
	Number of seasonal staff employed
Enhance innovation	Number of new products offered
	Number of standards and certifications obtained

## 6.5. Timeline

It is suggested to implement the programme activities over a period of 9 months. The total elapsed time for one round of the programme from identifying companies to the matchmaking event is seven months, with the follow-up stage rounding the cycle to 9 months.

The timeline outlined in Table 7 is indicative of the pace of work and subject to confirmation/ revision in consultation with the donors, the Moldovan authorities and other stakeholders.

Table 7. Suggested programme implementation timeline

Phase	Preparation		Implementation					Follow-up	
	1	2	3	4	5	6	7	8	9
Stage 1: Identifying and contacting suppliers and retailers	◆								
Stage 2: Business development reviews			◆						
Stage 3: Training									
Stage 4: One-on-one coaching					◆				
Stage 5: Matchmaking event									
Stage 6: Follow-up									◆

Note: ◆ Steering Group meeting.

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## Annex A. Methodology

The overall objective of the project is to build the capacity of the country's institutions to implement and monitor the SME Development Strategy and its 2008-2020 Action Plan.

Firstly, the OECD, the Ministry of Economy and Infrastructure of the Republic of Moldova and ODIMM (project partners) and other project partners identified the priority areas of the implementation of the SME Development Strategy. The project partners agreed to focus on the integration of Moldovan SMEs into global value chains through export and supply chain linkages with large investors operating in Moldova. The project partners agreed to focus on the food-processing sector specifically.

Secondly, a public-private Working Group chaired by Ms Iulia Costin, General Director of ODIMM was established in April 2019. The public-private Working Group, which comprises representatives from government, the private sector and international organisations, contributed to the analysis and discussed findings and recommendations.

Beside the extensive desk research, the below-listed project activities led to the analysis and recommendations included in this report:

### ***OECD Enterprise Survey of Moldova 2019***

An enterprise survey was launched in June 2019 after consultation with the public-private Working Group and a pilot phase of two weeks. The survey was designed by the OECD and administered by a local survey management company. It should be noted that the survey is not based on a representative sample of the overall business population in the food-processing sector. The particular focus of the project required to interview companies that (a) process food products of non-animal origin, and (b) have export potential which was assumed to be higher for companies of 10 employees or more. Overall, the 61 businesses surveyed employ 1,971 full-time staff. 22 out of the 61 respondents produce confectionery ingredients and 10 dried fruit; 3 companies produce dried vegetables; 3 companies produce bakery ingredients; a further 3 companies produce sauces. The remaining companies produce different categories of food products. Majority of interviewed companies have been in business between 11 and 25 years. In terms of geographical location, the sample approximately represented geographical distribution of the food-processors in Moldova.

### ***Focus group meeting and semi-structured interviews***

On 5 February 2019, the OECD organised a focus group meeting with 10 SMEs from the food-processing sector to discuss issues faced in exporting or linking with retailers. Regarding barriers to export, SMEs stressed (i) the lack of available qualified labour force, (ii) issues to obtain certification from authorities given the complex and sometimes-corrupted processes, (iii) the lack of sufficient production capacities to compete with foreign producers on foreign markets. As regards barriers to doing business with supermarkets, the SMEs primarily highlighted the complex and stringent requirements of international retail chains (e.g. Kaufland, Metro C&C), including certification, ability to continuously supply, and branding.

In addition, the OECD organised 15 semi-structured interviews with representatives of the food-retail sector (Metro C&C, Linella, Fourchette, IMC Market), food producers (Fruvit, Monicol, Prometeu-T SA, SRL Consery Group), business associations (Chamber of Commerce and Industry, European Business Association, Moldova Fruct, AgroFarm, Speranta-Con) and international partners (EU Delegation to the Republic of Moldova, World Bank).

### ***Public-private working group meetings***

OECD in co-operation with the Ministry of Economy and Infrastructure (MEI) and the Organisation for SME sector development (ODIMM) organised two Public-Private Working Group meetings in April 2019 and December 2019. The meetings brought together a wide range of public stakeholders involved in the design and implementation of SME policies, as well as representatives of the private sector, food producers and retailers.

#### ***1st Public-Private Working Group (April 2019)***

The objective of the working group was to discuss: (i) barriers to internationalisation faced by the SMEs operating in the food-processing sector, (ii) objectives, methodology and deliverables of the OECD project supporting implementation and monitoring of the SME Development Strategy, and (iii) international practices in supporting better integration of SMEs into global value chains (notably the case of Slovakia).

The meeting was opened by Mr Vitalie Iurcu, State Secretary at the Ministry of Economy and Infrastructure of Moldova, Ambassador Dušan Dacho, Embassy of the Slovak Republic in Chisinau, Mr Gintautas Baranauskas from the EU Delegation to Moldova, and Mr. Daniel Quadbeck from the OECD Eurasia Division.

During the first session, the OECD team together with the Ministry of Economy and Infrastructure, ODIMM and international experts discussed SME internationalisation and supply chain linkages in the food-processing sector in Moldova. Mr. Julian Lawson Hill, expert on SME internationalisation, presented the barriers that prevent local SMEs from tapping into global value chains (GVCs). Ms. Eugenia Sili, Counsellor for Economic Issues at ODIMM, highlighted recent ODIMM initiative in supporting SMEs. Mr. Iurie Fala, Executive Director of the Fruit Producers and Exporters Association “Moldova Fruct”, stressed issues faced by Moldovan producers of fruits and vegetables and called for coordinated action from OECD and public authorities.

The second session focused on policy responses to supply chain linkages in the food-processing sector in Moldova. Mr. Ján Oravec, President of the Entrepreneurs Association of Slovakia, shared with the audience the experience of Slovakia in supporting the SME integration into increasingly complex supply chains. Mr. Julian Lawson Hill outlined international best practices and opened a discussion on features and pillars of a support programme aimed at enhancing supply chain linkages between SMEs operating in the food-processing sector and food retailers in Moldova.

#### ***2nd Public-Private Working Group (December 2019)***

*The objectives of the Working Group meeting was to discuss: (i) findings of the 2019 OECD Enterprise Survey of Moldova, (ii) preliminary policy recommendations on enhancing the integration of Moldovan food processors into global value chains, and (iii) proposals for a support programme stimulating the creation of business linkages between Moldovan food producers and supermarkets.*



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The meeting was opened by Mrs Iuliana Dragalin, State Secretary at the Ministry of Economy and Infrastructure of Moldova, Mr Gintautas Baranauskas from the EU Delegation to Moldova, and Mr William Tompson, Head of the OECD Eurasia Division. Mrs Iulia Costin, General Director at ODIMM, moderated the discussion.

The first session focused on the findings of the OECD Enterprise Survey regarding current barriers to internationalisation and supply chain linkages for SMEs in the food-processing sector in Moldova, and preliminary policy recommendations. The OECD team described the status and growth potential of the food-processing sector in Moldova, and opportunities offered by local SMEs participation in global value chains (GVCs). The OECD team also presented the findings of the OECD Enterprise Survey and outlined the preliminary policy recommendations.

The second session focused on the support program designed to enhance supply chain linkages between Moldovan food producers and supermarkets. Mr Julian Lawson Hill, expert on SME internationalisation, presented the support program envisioned to support supply chain linkages of local food processors. Mr. Ján Oravec, President of the Entrepreneurs Association of Slovakia, shared with the audience the experience of Slovakia in supporting the SME integration into increasingly complex supply chains. Mr Sergui Botnaru, Head of Buying Fresh Products of Metro Cash & Carry, emphasised the involvement of Metro in the development of local SMEs and highlighted three areas where they might benefit from government/ ODIMM intervention.

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## **PROMOTING EXPORTS AND SUPPLY-CHAIN LINKAGES IN THE FOOD INDUSTRY IN THE REPUBLIC OF MOLDOVA**

In 2018, the Government of the Republic of Moldova adopted the 2018-2020 Action Plan for the implementation of its 2012-2020 SME Development Strategy. The Ministry of Economy and Infrastructure requested the OECD's assistance in supporting the implementation of the Action Plan, with a particular emphasis on actions promoting integration of Moldovan food producers into global value chains.

This work summarises the main findings of this joint work and provides analysis and policy recommendations to: (i) increase the competitiveness of Moldovan food producers, (ii) facilitate supply chain linkages between local food processors and supermarkets, and (iii) improve SME access to foreign markets.

[www.oecd.org/eurasia](http://www.oecd.org/eurasia)