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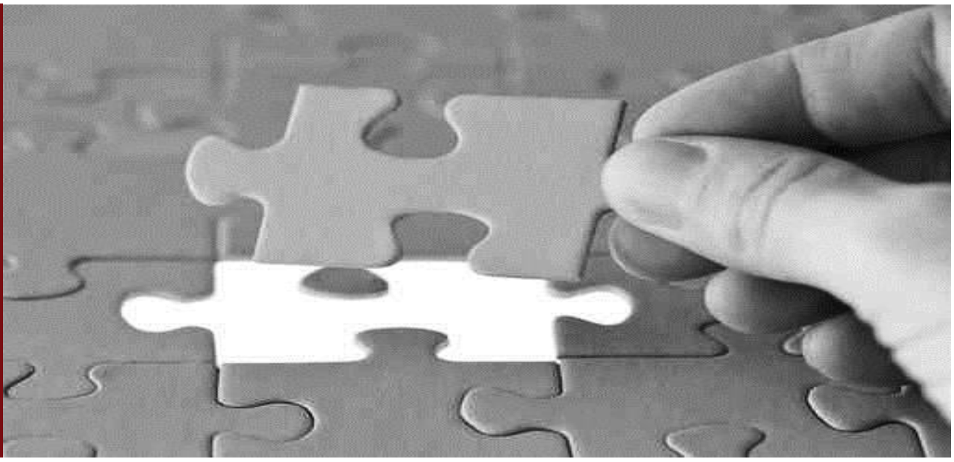

Analysis and recommendations for Strengthening the Business Support Infrastructure (BSI) in Moldova

Draft Report for OECD

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Abbreviations

ACED	Agricultural Competitiveness and Enterprise Development
ACSA	National Agency for Rural Development
AITT	Agency for Innovation and Technology Transfer
ASEM	Academy of Economic Studies
BDS	Business Development Services
BIs	Business Incubators
BIS	Business Intelligence Services
BRITE	Business Regulatory Investment and Trade
BSI	Business Support Infrastructure
CED	Chisinau Economic Department
CEED II	Competitiveness Enhancement and Enterprise Development
CNS	Central, North and South
CoCI	Centre of Commerce and Industry
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EU	European Union
GDP	Gross Domestic Product
GIZ	German Association for International Development
GoM	Government of Moldova
HRD	Human Resources Development
ICAWB	International Centre for Advancement of Women in Business
ICT	Internet Communication Technology
IFAD	International Fund for Agricultural Development
LA	Local Authority
MACIP	Moldo-American Business Centre
MICoC	Moldavian-Italian Chamber of Commerce
MIEPO	Agency for Foreign Investment and Export Promotion
MoE	Ministry of Economy
MSME	Micro, Small and Medium Enterprises
NGO	Non-Governmental Organisation
ODIMM	Organisation for Development of SME's
OECD	Organisation for Economic Co-operation and Development
SME	Small and Medium-size Enterprise
ToR	Terms of Reference
WB	World Bank

1 INTRODUCTION

The Terms of Reference (ToR) for this assignment highlights four main tasks to be performed:

- Task 1: Support the Best Practice Review on Business Support Infrastructure and Services;
- Task 2: Assist with the Mapping of Business Support Infrastructure in Moldova;
- Task 3: Support the Elaboration of a Policy Roadmap;
- Task 4: Assist with the Preparation of a Project Fiche.

Connected with the above tasks, the ToR foresees three deliverables, namely:

- Study of the best practices and the business support infrastructure and services in Moldova, described in Tasks 1 and 2;
- Policy Roadmap to support the activity of the Ministry of Economy, described in Task 3;
- Project Fiche to support the Government of Moldova in attracting donor financing, described in Task 4.

The remainder of the report is devoted to an analysis connected with each of the above four tasks.

2 REVIEW OF BUSINESS SUPPORT INFRASTRUCTURE AND SERVICES

2.1 Introduction

There is an extensive literature regarding the development of Business Development Service providers (BDS), so as to support the establishment and growth of enterprises, especially small and medium-sized enterprises (SMEs). This BDS literature equates broadly with the terminology used in Moldova and thus the ToR, namely Business Support Infrastructure (BSI). Consequently the two terms are used in this report synonymously.

Tis chapter covers the following:

- An overview of the types of tools and mechanisms that fall under the term BSI;
- An assessment of why the development of BDS is important to all economies, including transition economies;
- An analysis of what a full palette of BDS services, including at i) start-up ii) growth and iii) internationalisation typically looks like.

The above analysis is important in enabling the Government of Moldova, especially the Ministry of Economy (MoE) and SME Agency (ODIMM), to envision what the ultimate target for policy development would be, as far as the provision of BDS is concerned. The subsequent Chapter maps out what currently exists, so as to highlight the gaps. This will enable pointers to be identified for the elaboration of the policy conclusions and roadmap (subsequent Chapter). The final part of the report (Annex 1) is based on the preceding analyses and proposes a project / programme of support designed to assist in the further development of a structured BDS / BSI system in Moldova.

2.2 Business Support Infrastructure

While there is no official definition of Business Support Institutions or Infrastructure (BSI), it is generally acknowledged to cover tools and mechanisms designed to provide a wide palette of support to enterprises. As such, the nature of BSI is highly diverse but typically includes the following:

- State institutions such as Agencies for SME / innovation / technology transfer / investment;

- Local economic development units / economic departments;
- Business / innovation / technology transfer centres;
- Business Incubators;
- Regional Development Agencies (RDAs);
- Science / technology / business parks;
- Industrial / free / economic zones;
- Clusters and value chains;
- Business networks;
- National / sectorial / bilateral business associations and clubs;
- Agricultural extension services;
- Universities and research institutes;
- NGOs;
- Private consultancies;
- Freelance trainers and consultants, etc.

While the above is not a fully comprehensive list of possible BSIs, it provides a good overview of the typical tools and mechanisms involved in the context of business development.

2.3 Nature and Importance of BDS

Business Development Services (BDS) have been defined by the Committee of Donor Agencies for Small Enterprise Development (CDASED, 2001, comments added) as being:

"… services that improve the performance of the enterprise, its access to markets, and its ability to compete. The definition of 'business development service'… includes an array of business services [such as training, consultancy, marketing, information, technology development and transfer, business linkage promotion, etc.], both strategic [medium to long term issues that improve performance] and operational [day-to-day issues to confront enterprises]. BDS are designed to serve individual businesses, as opposed to the larger business community."

The Committee of Donor Agencies basically defines BDS as non-financial services that improve the performance of the enterprise, its access to markets, and its ability to compete and which include a wide array of business services designed to serve small (as well as large) businesses. This is consistent with the OECD's long established (1995) definition, which also view them as non-financial services that have the capacity to improve the functioning of SME across a wide range of activities, including enhancing their performance through the provision of specialist external advice and expertise on a short-term or temporary basis to supplement internal resources and capacities.

A review of the literature shows why the development of BDS is important to all economies, including transition economies. There is international agreement that BDS add value to goods and services, allowing businesses to compete more effectively, access new markets, operate more efficiently, and ultimately be more profitable. In increasingly complex and competitive local regional and global environments, BDS can help SMEs. They focus on their core competencies but develop relationships with a range of external BDS specialists. Such a trend is accelerated by developments in technology and increasing levels of specialisation.

It is, therefore, evident that BDS are a key means of supporting the development of SMEs, which are known to create employment, generate income and contribute to economic development and growth (see SME Strategy, GoM, 2012).

There are a number of key actors involved in BDS markets and provision, including the following:

- **SMEs:** on the demand side of the market are micro enterprises and SMEs that are mostly profit-oriented. These represent the actual or potential clients of BDS providers;
- **BDS providers:** provide services directly to SMEs. They may be individuals, private for-profit firms, non-governmental organisations (NGOs), parastatals, national or sub-national government agencies, business and industry associations, etc. They may be enterprises themselves;
- **BDS facilitators**: support BDS providers, for example by developing new service products, promoting good practice, and building provider capacity. BDS facilitators can also work on the demand side, for example by educating SMEs about the potential benefits of services or providing incentives to try them. Other BDS market facilitation functions include the external evaluation of the impact of BDS providers, quality assurance, and advocacy for a better policy environment for the local BDS market;
- **Donors**: provide funding for BDS projects and programmes. In some cases, the facilitator is the project office of a donor;
- **Governments**: like donors, may provide funding for BDS projects and programmes.

(Committee of Donor Agencies for Small Enterprise Development, 2001)

The rationale for state intervention in relation to BDS is that these are needed in order to address fundamental institutional constraints and develop markets more quickly and effectively than would otherwise be the case. It must be recognised, however, that government policies may intensy the problem, such as when parastatals play a dominant or direct role in provision, thus inhibiting the development of a competitive market. Likewise, donor interventions in response to weaknesses in BDS may inhibit BDS market development through the use of direct subsidies for transactions, resulting in distortion of incentive structures, motivation, prices, etc. Market development may also be affected by the creation of subsidised NGO 'businesses' as BDS providers.

It is generally agreed that the principal role of Governments such that of Moldova is to provide an *enabling policy, legal and regulatory environment for SMEs, as well as public goods such as basic infrastructure, education and information services*. However, the role also includes BDS interventions designed to promote vibrant markets and a diverse range of BDS services. In relation to BDS market development, the main function of governments (including donors, IFIs, etc.) is *facilitation of the demand and supply sides of the BDS market*. Such a process must take into account the fact that BDS market development is rarely constrained by a single constraint. Consequently, it has to be addressed by various interventions over a medium to long term timeline.

2.4 The Palette of BDS Provision

BDS are effectively a range of services designed to assist SME entrepreneurs to operate efficiently and grow their businesses with the aim of contributing to economic growth, export orientation, employment generation, poverty alleviation, etc. Table 2.1 highlights some of the main categories of BDS, with are also known as "non-financial services" to SMEs.

Table 2.1: Main Types of BDS

1. Market access	▪ Market research ▪ Market information ▪ Trade fairs ▪ Product exhibitions	▪ Advertising ▪ Packaging ▪ Marketing trips and meeting ▪ Subcontracting & outsourcing, etc.
2. Infrastructure	▪ Storage and warehousing ▪ Transport and delivery ▪ Business incubators ▪ Telecommunications	▪ Internet access ▪ Computer access ▪ Secretarial services, etc.

3. Policy and advocacy	▪ Training in policy advocacy ▪ Analysis of policy constraints and opportunities	▪ Direct advocacy on behalf of MSMEs ▪ Sponsorship of conferences ▪ Policy studies, etc.
4. Input supply	▪ Linking MSMEs to input suppliers ▪ Improving suppliers' capacity to deliver quality inputs	▪ Facilitating establishment of bulk buying groups ▪ Information on input supply sources, etc.
5. Training and technical assistance	▪ Mentoring ▪ Feasibility studies ▪ Business plans ▪ Franchising ▪ Management training	▪ Counselling / advisory services ▪ Legal services ▪ Financial and tax advice ▪ Accountancy and bookkeeping ▪ Technical training, etc.
6. Technology and product development	▪ Technology transfer / commercialization ▪ Linking MSMEs and technology suppliers	▪ Facilitating technology procurement ▪ Quality assurance programmes ▪ Design services, etc.
7. Alternative financing mechanisms	▪ Factoring companies providing capital for confirmed orders ▪ Equity financing	▪ Facilitating supplier credit ▪ Equipment leasing and rental, etc.

Source: ILO, 2003, p.3

2.5 BDS Needs of SMEs

As can be seen in Table 2.1 above, which is not an exhaustive list of all possibilities, the range of BDS services is highly diverse in nature; the specific services which might be required by start-up, growth or export-oriented will be highly specific to the enterprise and its particular needs. It is thus to predict the BDS needs of SMEs, except in general terms. Table 2.2 below represents an attempt at doing so, while recognising that this is no more than an indicative set of services; a start-up might actually need other services which might fall either in the growth or export oriented categories and vice versa.

Table 2.2: BDS Needs According to Stage of Development

1. Start-up	**Information Needs**	**Training Needs**	**Consultancy needs**
	▪ Market Research, Information ▪ Internet access ▪ Computer access ▪ Competitors Information	▪ Business plans ▪ Management training ▪ Technical training ▪ Marketing & advertising ▪ Business development ▪ Strategy development	▪ Mentoring ▪ Legal services ▪ Accountancy & bookkeeping ▪ Financial & tax advice ▪ SWOT Analysis ▪ Feasibility studies
2. Growth	**Information Needs**	**Training Needs**	**Consultancy needs**
	▪ Storage & warehousing ▪ Product exhibitions ▪ Information on supply sources ▪ Marketing trips & B2B meetings ▪ Linkage to input suppliers ▪ Legal & regulatory services	▪ Management training ▪ Technical training ▪ Financial reporting ▪ Taxation & accounting ▪ Legal & regulatory services ▪ Production & Operation Management ▪ Sales & marketing	▪ Advertising & PR ▪ Accountancy & bookkeeping ▪ Legal services ▪ Financial and tax advice ▪ Counselling/advisory ▪ Investment opportunities ▪ Operation with Sales ▪ Standards, quality & certification ▪ Production, branding, packaging
3. Export	**Information Needs**	**Training Needs**	**Consultancy needs**
	▪ Packaging ▪ Trade fairs ▪ Product exhibitions ▪ Marketing trips and meetings	▪ Training in policy advocacy ▪ ICT training ▪ Trading	▪ Marketing studies ▪ Subcontracting & outsourcing ▪ Analysis of constraints & opportunities ▪ Direct advocacy for SMEs ▪ TQM & Standardisation ▪ Trade & Investment services ▪ Business process re-engineering ▪ Energy efficiency

Note: the table is indicative of the range and type of information, training and consultancy support and needs. The actual needs will be unique and vary from firm to firm.

3 BSI IN MOLDOVA

3.1 Introduction

This chapter comprises three main elements:

- A qualitative overview of the key BSIs in Moldova, as well as a presentation of a cross-section of BSIs undertaken during November 2012;
- A quantitative overview based on a survey of 55 BSI / BDS providers ("supply" analysis) undertaken during January-February 2013;
- A quantitative overview based on a survey of 206 SMEs ("demand" analysis) undertaken during January-February 2013.

These three elements were designed, in combination, to provide a good overview of the current situation, as far as BDS providers / institutions in Moldova are concerned.

3.2 Overview of BSIs in Moldova

The nature of BSI is diverse and dynamic. Below we present the main such institutions that exist in Moldova. It should be noted that the intention is to present an overview, rather than a detailed mapping of BSIs and numbers; this is a dynamic and thus constantly changing landscape:

1. Policy makers: two main institutions are responsible for most of the BSI / BDS provision in Moldova, namely ODIMM and Agency for Innovation and Technology Transfer. The former is under the auspices of the Ministry of Economy, whereas the latter is under the Academy of Sciences. Numerous others are responsible for parts of the BSI such as the Ministry of Regional Development (RDAs); academic / private institutions (incubators); municipalise / rayons (business centres and Economic Departments); NGOs (highly diverse and often irregular in their activities); private sector consultancies and others.
2. Local authorities / rayons: the 33 municipalities have an Economic Department with a few staff members; these typically have an ODIMM SME contact, though their role is more concerned with data collection and statistical analysis than with other forms of BDS support.
3. Business Incubators (and business parks): are in their second phase of development: ODIMM has a network of six, with a seventh planned in 2013; Agency for Innovation and Technology Transfer has a network of eight innovation incubators and four Business Parks) with more planned, based on the innovation strategy; academic institutions (15-

20); and private sector institutions either individually or as joint ventures with academic institutions.

4. Agricultural extension services: a critical piece of the BSI /BDs provision jigsaw puzzle are the agricultural extension services since there is virtually no other BSI provision outside of larger urban areas, especially Chisinau. The two relevant institutions are Agro Inform and ACSA, both of which are NGOs. They are reliant on donor / IFI and/or state funds from the Ministry of Agriculture.
5. Regional Development Agencies (RDAs): are non-commercial institutions subordinated to the Ministry of Regional Development designed to implement the regional development strategies operation plans. Currently RDAs exist in three of the six regions, namely the Central, North and South regions.
6. Science / technology parks / zones: No science parks are known. The Agency for Innovation and Technology Transfer has four business parks and according to MIEPO information there are 10 Industrial Parks and nine Free Economic Zones.
7. Clusters: not known.
8. Business networks: not known.
9. National/sectoral business associations: there is a wide range of generic business associations (e.g. Chamber of Commerce, with 13 regional offices), bi-lateral associations (e.g. Moldavian – Italian Chamber of Commerce), sectoral associations (e.g. Associations of Fruit Producers, Association of Table Grape Producers, Association of Wine Makers, Association of ICT, Association of Apparel Makers), clubs (e.g. Business Club “Timpul”) and SME Associations (though these appear to be largely ephemeral or political in nature).
10. Universities: are involved in information, training and consultancy provision, either as individuals or as business centres and incubators, such as the Economic University, Technical University, Academy of Economic Studies, etc.
11. NGOs: reportedly thousands of NGOs are registered, many of which are theoretically BSIs providing BDS in areas such as SME development, tourism, women entrepreneurship, etc. In reality, only a fraction appears to be permanently active and contributing to BDS provision. The great majority appear to be reactive and dependent on donor funds / programmes.
12. Private consultancies: The “Big Four” represent the tip of the private consultancy iceberg. There are numerous business consultancies, including niche operators. Many consultancies appear to have arisen following interventions by donors / IFIs. For example, the BAS programme alone has a database of over 200 consultancies; this is a sub-set of the private consultancies (many of which also have a NGO consultancy) but the exact numbers are not known.
13. Freelance trainers and consultants: since these are not a protected

profession, thousands of individuals operate as freelancers, either on a full time basis (the minority) or on a part-time basis (e.g. academics).

It should be noted that the above is not a comprehensive overview; the situation is constantly evolving with new infrastructure being added and older, unsustainable or unprofitable BSI being destroyed. Furthermore, Gagauzia and Transnistria also have BSI which is not included above.

3.3 Analysis of a Cross-Section of BSIs

The aim of this part of the analysis is to use a qualitative approach to develop an understanding of the types of BDS providers / BSIs that exist and the types of services being provided. The qualitative analysis presented below does not seek to be representative, comparable or comprehensive. It is designed to provide a "snapshot" of the kinds of services and capabilities currently available, thus providing insights for policy development.

SME Agency (ODIMM)

ODIMM carries out numerous activities in support of SME development, including information, training, consultancy and financial support for SMEs generally (see www.ODIMM.md).

In terms of BSIs, ODIMM is responsible for the development of a network of seven Business Incubators (BIs) by 2013. The first was opened in Soroca in 2009 with Sintef support. The pilot initiative was judged to be successful and the process was rolled-out: four others opened in 2012 (Stefan Voda, Leova, Rizina and Dubasar). Sinjerai is due to open in 2013. The ODIMM model includes the following characteristics:

- Mixed incubators: 60-70% services, 30-40% production; and the rest other sectors of activity;
- Size: 1,500 – 2,000 sqm; about 18-23 tenants each;
- Mixed firms: start-ups and early growth (about 12 months old);
- Time limited incubation: up to three years;
- Rents: vary with length of incubation period: 20% / 50% / 80% of market level rents;
- Staff: one administrator and three part-time staff (receptionist, accountant and guard).
- Financing: 10% from municipalities; ODIMM funds refurbishment and common facilities; tenants pay for own furniture and equipment and rent.

According to ODIMM, these together with the 10% co-financing from municipalities is sufficient to cover the running costs, which are very low. Staff costs are also kept low because people are employed by the local authority at local wage rates; recruitment is done jointly with ODIMM; but LAs have the final say on the recruitment process. Sustainability is likely to be secured as a result of the above model though funds can be and are supplemented with donor and other applications, though this is not thought to be essential to maintain the BIs.

Other ODIMM BSI activities include:

- National Consultancy Service Centre to be established with EU support;
- Two Centres of Excellence for Youth to be established with Romanian and Moldovan funds;
- Four Regional Centres of Excellence to be established with JICA funds.

Agency for Innovation and Technology Transfer

The AITT seeks to develop innovative and technology transfer infrastructure based on the (draft) Moldovan Strategy for Innovation which aims to develop:

- Technological innovation parks: three established one about to be launched in 2012 (4);
- Business innovation incubators: seven established one about to be launched in 2012 (8);
- Technology transfer projects: each worth up to Lei 1 mio; 50% funding by applicant; 40% private sector; 15% research institutions; 26 were approved projects in 2012;
- Business innovation incubators: for innovative start-ups; up to 3 years (8);
- Technology innovation parks: existing innovative firms; up to 5 years (4).

All of the above BSI has a similar structure, namely support 6-7 firms (ca. 18-20 sqm each); 4 support staff (manager, accountant, lawyer, receptionist) providing business planning, mentoring and coordination support for tenants of incubators and parks with little differentiation for incubators (start-ups) and parks (established, innovative firms). The funds are allocated on an annual basis by the Academy of Sciences and tenants pay $3-4 per sqm plus additional services. Not all pay these costs and survivability, which is estimated at 10-20%, would appear to be low.

The draft Innovation strategy does not set a target for additional incubators and Parks but another 5 are likely to be established in 2013 and more thereafter. However, there is little or no coordination between the Agency and MoE / ODIMM on the establishment of incubators and parks.

Agency for Foreign Investment and Export Promotion (MIEPO)

MIEPO's role relates to investment and export promotion, as the name implies and reports to the Ministry of Economy. It acts as a One-Stop-Shop for all issues such as registration, business forums, PPD, B2B, study tours, networking, etc. It has a staff complement of 12 - 15. It runs the Fund for Investment and Export Promotion, whose applicants seek funding for activities such as participation in exhibitions, seminars, specific market studies, etc. Lei 5.2 million is available annually, partly for contracted services and research, such as market analysis and market penetration studies. MIEPO commissions BDS from national firms and, if the skills are not available locally, international ones.

Chisinau Economic Department

CED comprises of a manager and two other staff whose work is driven by the annual programme of the local authority (currently the Anti-Crisis Plan 2010-12; the new plan has yet to be prepared because of the pending local authority reform). They are aware and follow the SME strategy and Action Plan of MoE/ODIMM. Their activities mainly relate to: statistical analyses (e.g. questionnaires focused on firms); preparation of indices (e.g. socio-economic development) and public private dialogue (e.g. on specific issues such as tourism sector and tax and investment matters).

There is relatively little contact between ODIMM and the CED. Exchange of information, communication and cooperation could be enhanced though this may be because Chisinau is the largest municipality; it is assumed that ODIMM cooperates more intensively with smaller, rural municipalities. They have limited contact with entrepreneurs whose main interests include legal issues, tax issues, etc.

EBRD (Business Advisory Services)

It is considered that some business associations are good at BDS / BSI provision, especially sectoral associations such as Association of Wine Makers, Association of ICT, Association of Apparel Makers, etc. Although there are many SME Associations, they are either ephemeral or political in nature and do not deliver consistent BDS. In the rural areas, the only noteworthy ones delivering agricultural extension services are ACSA and AgroInform. At present there is little or no non-agricultural business support due to lack of business infrastructure, human resources, transport infrastructure and economic activity.

BAS works with private companies but confronts the problem that almost all BDS are currently offered free of charge; serious companies generally make little or no use of free services. Other issues include the variable image of BDS providers, as well as a lack of trust in the quality of the services provided. BAS offers 50% grants but firms must pay the balance.

The EBRD recognises the need for the introduction of minimum BDS / business consultancy standards (such as International Council of Management Consulting Institutes – ICMCI) and is willing to support the process. It notes that business consultancy is not a listed profession by state bodies. The lack of a definition of consultancy services or consultancy projects means that state bodies are unable to recognise and commission consultancy projects, such as feasibility studies. This constrains the development of effective BSI and thus BDS in Moldova despite there being demand for BDS.

There is a lack of hard BDS skill, which must be sourced from countries such as Ukraine, Romania and other EU countries. This is reinforced by a lack of trust in the quality of local consultants. BAS has a database of 200 consultancies, 50% of which are actively working with BAS. Gaps are thought to exist in areas such as financial management, effective business planning, management, etc.

USAID

USAID implements various programmes such as: i) Competitiveness Enhancement and Enterprise Development (CEED II); ii) Agricultural Competitiveness and Enterprise Development (ACED); iii) Business Regulatory Investment and Trade (BRITE), etc. In terms of BDS provision, they tend to be generic in nature and there are not many specialist consultancies. There is a need for Government to do less itself and stimulate the development of strong BSI / BDS providers.

International Fund for Agricultural Development

IFAD is running two projects: i) Rural Financial Services and Marketing (IFAD 4) and ii) Rural Financial Services and Agricultural Business Development focusing on SMEs, micro businesses and young entrepreneurs.

Rural areas are supported with agricultural extension services by NGOs such as ACSA and AgroInform but there is a need to develop a coherent and integrated rural extension service. Donor funding could be terminated and though the NGOs have planned for sustainability, there could well be a disruption in the provision of the current rural extension services.

Research and technology institutes are not adequately connected with the agricultural extension services. Business associations such as Associations of Fruit Producers, Association of Table Grape Producers, Union of Producer Associations and Regional Associations of Producers do deliver some training and consultancy to members, albeit constrained by availability of funds from donors and other organisations.

There is little private sector BDS provision for rural development, such as the Agricultural State University of Moldova in the form of contractual engagements between academics and firms. This may change from 2013, when the University will be able to engage directly. The primary source for services provision are the NGOs and only if this fails do the firms address the private/university sector. More sophisticated, value adding training and consultancy such as quality management, food safety, etc. is largely unavailable, as is specialist education and training.

Academy of Economic Studies (ASEM)

The ASEM Consultancy Centre was established in 1993 and comprises two full-time staff members, supported by a network of external consultants. Its two main services are:

- Training: entrepreneurship, accountancy, sales, marketing, HRD, personal development, business planning etc. (ca. 600 people annually);
- Consultancy: mainly connected with the training for example business planning for applications for funding from financial institutions.

The demand from the private sector for paid services, mainly from small and medium, rather than micro enterprises, especially sectors, such as agriculture and food processing. Although there was a dip in demand in 2009, the market is reportedly stabilising.

A Business Incubator provides ca. 12 sqm for 6-7 businesses created by students (mostly start-ups). The receptionist and manager coordinate the activities, including coordinating training for tenants. Tenants stay up to 2 years, pay ca. 300 lei per month plus electricity and telecommunications. Many businesses have left and continued their activities but the success rate is not known.

There is a virtual Innovation Incubator for the ICT sector, which is a joint venture between ASEM, the Agency of Technology Transfer and Trimetrica, a private sector firm.

Moldo - American Business Center (MACIP)

MACIP has existed since 1993. It has two staff members and a network of consultants and trainers, including from ASEM (see previous discussion) and does both training (80%) and consulting services for students and others. Its clients tend to be financial institutions and it trains smaller companies (e.g. sales and marketing). Micro enterprises lack money and time and regional enterprises are unwilling to come to Chisinau for services.

MACIP published a study on „Identifying the Needs of Business Providers“ (2012) covering Incubators, chambers / associations and private sector which showed that SMEs lack trust is BDS providers, consider fees to be high and lack specialisation. Owners generally prefer to find their own solutions to their problems.

National Association of Rural, Ecological and Cultural Tourism

The association has two full time staff and draws on about 7-10 associates when resources allow. It seeks to create tourism products in localities with tourism potential and raises awareness (e.g. that tourism can be much more profitable than agricultural production), tries to group communities, thus developing trails, seeks to encourage hostels / restaurants to be established, support with developing strategies and action plans for communities, support with training on customer orientation, etc. It also provides customised consultancy support.

However, there is an unwillingness or inability to pay for these services by the communities and family businesses so donor funds remain important. Although there are about 2,000 tourism development institutions, the vast majority are either not operational or sporadically active.

International Center for Advancement of Women in Business

ICAWB is an NGO with four full time staff and a network of trainers. It has 200 associate members and 40 active members paying the annual fee. It promotes female entrepreneurship through capacity building and training, such as for ODIMM, international organisations and donors. Its main activities include: workshops, exhibitions, and other awareness raising events; commercial training (e.g. leadership, business and family, sales, marketing, management, etc.); consultancy (in reality mainly follow-ups to its training).

A Network of Women Organisations (15 institutions) has been active for over a decade, covering the whole country, including Gagauzia and Transnistria. Although there are many registered women-oriented NGOs most are inactive or ineffective.

Business Club "Timpul"

There is a need for effective, meaningful public private dialogue mechanisms in Moldova, as well as effective promotion of Moldovan goods and services. There is a need for “soft” consultancy services (e.g. strategic marketing, export support, business planning, data and analysis, etc.), as well as “hard” consultancy services (e.g. efficiency, productivity, quality, etc.). But SMEs are currently in “survival” mode and may be unwilling to invest in BDS.

Chamber of Commerce and Industry

CoCI has 250 employees working in Headquarters and the nine regional offices, as well as 20 subsidiaries located in the rayons. It is a voluntary membership institution with 1,500 members, 90% of which are SMEs. It provides services such as: information, data, analysis, B2B, conferences, events, trade fairs, networking, lobbying, exhibitions, business forums, trademark assistance, quality support, etc.

It delivers training through its VET Centre, which offers 50+ courses to members and non-members on a commercial or subsidised basis (if supported with public / donor funds). It also has a Marketing Centre providing information and support for export-oriented firms.

CoCI has specialist staff able to deliver consultancy services to both members and non-members. This is supplemented with a network of international and 50-60 domestic consultants that can be commissioned by companies. These cover themes such as: ISO standards, marketing, PR, business planning, energy efficiency, etc.

Moldavian - Italian Chamber of Commerce

MICoC represents about 80 companies, 90% of which are Italian. Preceding the financial crisis but accelerating since then, a steady stream of Italian companies are seeking to relocate their operations to Moldova. The motivating factors include labour costs and tax planning. Raw materials such as leather and textiles are imported, worked-on and finished products are re-exported to EU countries; Moldova gains jobs and incomes. Some companies are relocating from Timisoara (Romania) to Moldova suggesting footloose, short-term and shallow Foreign Direct Investment (FDI).

MICoC supports firm establishment (e.g. registration, transportation, customs, logistics, market research, matchmaking). Other services include legal support and accounting. Specialist support is available such as Association of Bio-Energy and Agency for Energy Efficiency.

AgroInform

Agroinform started providing post-privatisation support in rural areas in 1998. In 2000 it became the National Federation of Agricultural Producers and in 2006 established a network with a focus on services for small and medium-sized farmers (no subsistence farmers). It has 4,500 members which it supports to gain access to internal and external markets. It also provides consultancy support in the form of marketing and economic specialists (eight in the HQ) and the other experts. Its services include information on prices (www.agravista.md), marketing studies and the bi-monthly agricultural newspaper.

About 5% of its budget is raised from membership fees; 30% from commercial revenue (e.g. market access consultancy); and the rest from donors. There continues to be a significant reliance on public support. The other NGO supplying agricultural extension services is ACSA (smaller and reliant on WB, Ministry of Agriculture and other public support).

Business and Finance Consulting

Business and Finance Consulting specialises in financial services for banks and MFIs, whose HQ is in Zurich. The Moldova office provides services such as preparation and formatting of CVs. Activities include training and research, such as guarantee scheme of ODIMM and micro finance in Moldova for WB. There is currently very limited BSI supporting the financial sector, such as the Bankers' Association, and there is a need to raise standards of consultancy services, both generic and specialist. The general perception among entrepreneurs that "they know best" needs to change. They on-going heavy reliance on free services inhibits market development; it is predominantly medium and large firms that are currently willing to pay for BDS.

ODIMM trainers

A group of ODIMM trainers maintained that there is a good deal of information and support for establishment of SMEs. In terms of training, there is range of providers doing training for all sorts of target groups of relevance, including ODIMM itself. A concern is that these do not always reach rural areas but if people are determined, they can gain access to such training. Local Authorities do not always provide information on training courses and other services available. Moreover, ODIMM's SME Contacts could be used more effectively, such as getting all information on training available, disseminating to interested parties, including the local BSI infrastructure.

In terms of training and development of a BDS market, GoM institutions could lead the way by introducing symbolic or small fees for training and consultancy. This should not necessarily apply to potential and actual start-ups but to established firms. This would signal to all BDS providers that training and consultancy are services of value and require a commercial approach. It is critical to change entrepreneurs' mentalities in the medium to long term, so as to enable a normal market for BDS to emerge, rather than one distorted by free incentives of various sorts.

There is a need to introduce internationally recognised standards for business service providers as a basis for ensuring minimum requirements and raising standards, trust and willingness to use BDS. There is also a need to expand the availability of more complex, value adding BDS.

Pro Consulting

Pro Consulting has a limited liability consulting firm (for commercial services and charges VAT), as well as a consulting NGO (for international / donor services and does not charge VAT). Flexibility is the name of the game, since a reliable market is yet to arise. In this evolving situation, providers must keep their options open and remain flexible.

NGOs benefit from donor contracts (IFAD, WB, EBRD, USAID etc.) which have prepared thousands of business plans. This brings them into contact with enterprises and affords them the opportunity to build relationships which can subsequently lead to commercial services such as strategic marketing, strategic management, performance improvement, corporate finance, etc. Medium to large firms are increasingly willing and able to pay for BDS such as Balanced Score Card and other techniques and analyses. State institutions such as ODIMM should recognise the need to sub-contract a larger proportion of their services, rather than do it themselves, as well as the need to charge for training and consultancy services.

The BDS market is currently distorted because donors and GoM deliver free services. Consequently, many firms are used to getting “something for nothing.” When private consultants calculate that it will take x days and cost y, many firms are either unable or unwilling to understand the commercial logic. There is a need to organise a Management Consulting Association in Moldova so as to raise the quality and standard of consulting in Moldova through accreditation, professionalization, introduction of ethnics, etc.

Business Intelligence Services Group (BIS)

BIS focus on strategic planning (business planning, marketing, feasibility studies, advocacy, regulatory issues, etc.); business capital (e.g. corporate finance, mergers and acquisitions, company finances, etc.) business credit information (e.g. business risk assessment, confidential checks, etc.). BIS also has a NGO for reasons of flexibility. It concentrates on international / donor clients and does not charge VAT, which is an advantage. The 10 consultants work for both the NGO and the commercial enterprise.

The “Big Four” have established offices in Moldova; there remains a preference for using international consultancies and the market is growing in Moldova. Many BDS providers are sub-contractors to the Big Four.

The indications are that private firms are growing and becoming more mature in terms of recognition of the need for, and the use of, BDS, for example the industry and agriculture, which make up about 14% of GDP. However, many gaps exist, such as: audit, standardisation, quality infrastructure, legal specialisation, etc.

3.3.1 Conclusions

The preceding section has presented a qualitative analysis based on discussions with a cross-section of BSI / BDS providers in Moldova. It is not claimed that these are neither representative nor comprehensive list of the BDS providers / BSIs in Moldova. However, they do serve to illustrate a number of issues which are of relevance to the policy recommendations and roadmap, as well as the project fiche such as:

- The existence of a range of different types of BDS providers;
- The provision of BDS covering a large palette of services;
- An emphasis on information, followed by training but relatively little provision of consultancy services;
- The existence of confusion between information and training as opposed to consultancy services, especially by non-commercial operators;
- A general trend of reduced demand for BDS services during the worst of the recession, followed by a slow recovery since then;
- A recurring theme that the BDS is still evolving, but not yet mature;
- A need to raise BDS products, as well as quality, standards, etc.
- A continuing lack of willingness on the part of enterprises to pay for BDS, partly influenced by government and donor interventions;
- A general lack of financial systainability on the part of BDS providers, this being most evident in the case of NGOs but also characterising private sector, commercially-oriented BDs providers;
- The existence of a large and increasingly active foundation of BSI / set of BDS providers, with the potential for further development.

The next section takes a quantitative approach. It examines the SMEs' perspective (through a demand survey) and this is followed by a BSI survey (supply of BDS), so as to generate a well-rounded perspective on the nature of BDS provision and BSI in Moldova.

3.4 Demand Survey

3.4.1 Introduction

The OECD, in cooperation with MoE and ODIMM, undertook a survey of 206 SMEs throughout the country during February-March 2013 in order to assess the demand for BDS services (see OECD, 2013a). The key findings of the demand survey are presented here, leading to an extraction of the main findings, relevant to policy making in relation to BSI / BDS provision.

3.4.2 Key Findings

Profile of Surveyed Companies

- The retail sector is the most represented (41%) in the survey though all the key sectors were covered. In terms of the companies, 60% in the sample have operated for less than 10 years, including 22% for less than three years. More than two thirds of the sample (71%) are registered as limited liability or joint stock companies, with the remainder Entrepreneur / Sole proprietorship (19%) or Other (including general partnership).
- Most companies (89%) are located in urban environments, especially in Chisinau (62%). The sample is dominated by small enterprises, with 10 employees or less (79%) and a turnover less than 30,000 EUR (~500,000 lei).
- 11% of the sample are exporters, whose main destination markets are in the EU (41%) though Russia and CIS is also important (27%). In terms of export earnings as a percentage of total revenues, the sample is split between firms (50% of companies) that have a limited international exposure (0-25% of revenues) and firms (25%) which are mainly dependent on exports (76-100% of revenues).

Barriers to Business Development and Growth

- Respondents were asked to list the top five barriers (based on importance) for business development and growth. The weighted results indicate concerns with accessing finance for growth (17.5%), high collateral requirements for finance (14.1%), lack of trained employees (10.7%), insufficient consumer demand (13.6%) and limited resources for innovation (4.4%).

Information:

- Less than a third of the surveyed firms contracted information services dealing with the establishment of an enterprise and its development. Out of all types of services, firms most often needed information about financials, taxation and accounting.
- Information services on legal and regulatory issues were second most used by the companies. A fifth of the firms contracted information services dealing with IT&C; they reported some of the lowest levels of satisfaction.
- Only 12% of firms used more complex services for improving their processes and businesses.

Training:

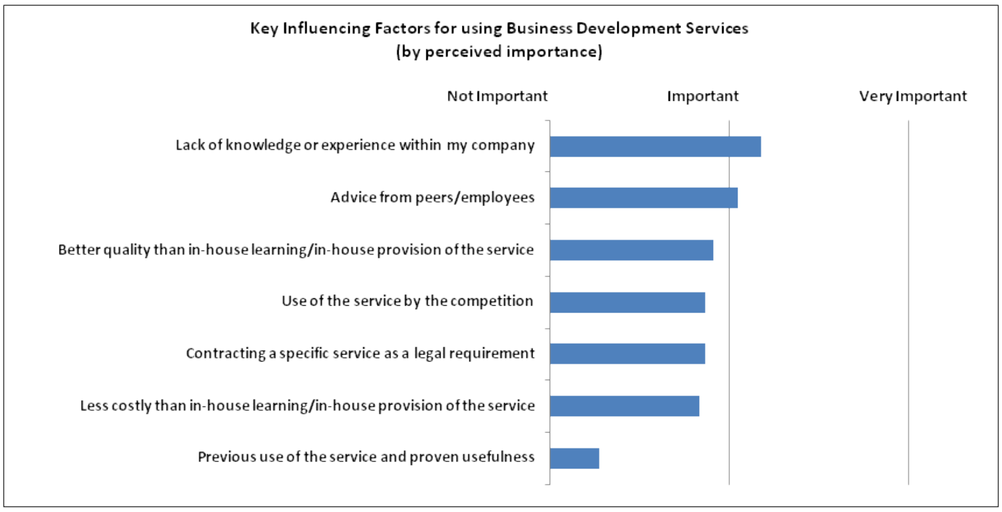
- Regarding training, surveyed firms contracted most often (79%) services on financial reporting, taxation and accounting. Training on business start-up, development and strategy comes a distant second (49%). Training on legal and regulatory issues (20%) completes the top three most used services, though only a fifth of the sample used them. Very few firms used IT training services (11%).
- Surveyed companies had only a limited experience with training services dealing with trade and investment issues and with general management issues. The latter was most often paid by the using companies (and mostly not provided for free). Similarly, companies barely used training services dealing with production and operation management. Sales, marketing and advertising training services were slightly more often contracted by firms.
- The surveyed companies make least use of complex training services for improving processes, in line with the findings for information services.

Consultancy:

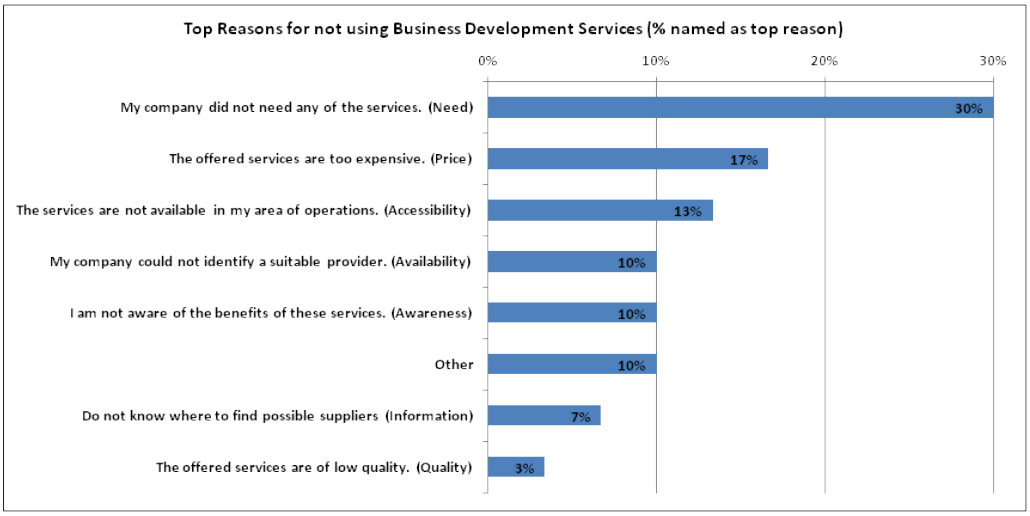
- Consulting services on financial reporting, taxation, accounting (46%), legal and regulatory (30%) services are the ones most used by firms (see trend for information and training services). In line with the limited export profile of surveyed companies, respondents indicate a limited use of trade and investment related consulting services. General management consulting services follow the same pattern.
- More sophisticated consulting services dealing with production (8%) and operation and with sales (15%) were also under-utilised by firms, despite some of the highest levels of satisfaction reported by users. Market research consulting services were also contracted by a small number of firms, despite insufficient demand ranking high as a business barrier. Complex consulting services for process optimisation were the least used.

Experience with BDS

- Moldovan companies (50%) and government agencies (25%) are the main providers of BDSs in Moldova. SMEs are informed about their services from a wide mix of sources.
- SMEs using BDS indicate their needs were primarily driven by the lack of in-house expertise, followed by advice from peers/employees and availability of higher quality than would be the case through in-house provision.



- Surveyed companies indicate not needing BDS as the most important reasons for not contracting any. Price and accessibility were ranked secondary in importance, followed by a set of other factors such as availability, awareness and information.

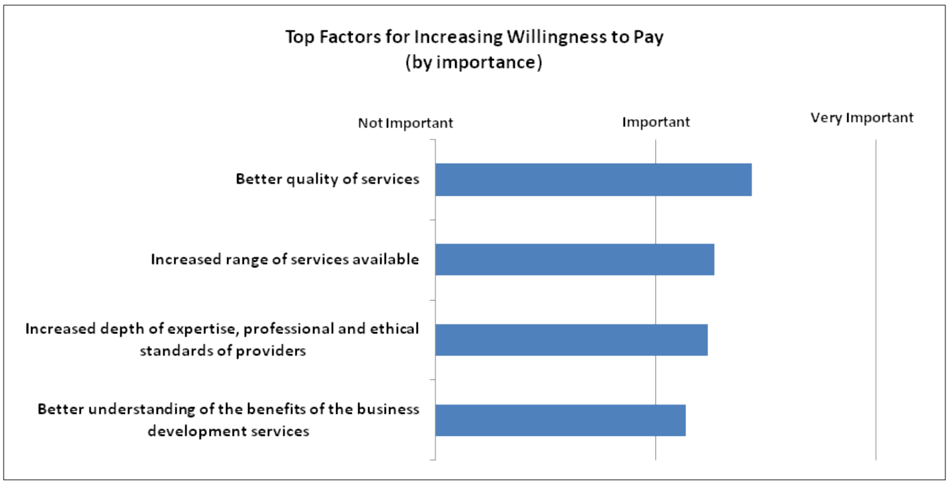


- When asked about their planned future use of BDS, companies indicate a strong interest, for all services: information (62%), training (59%) and consultancy (48%).

Future Development of the BDS Market

- Respondents are divided on the question whether the Moldovan BDS market has sufficient general and specialist providers; 48% believe there are and 44% did not. Examples of BDS currently not offered include: standardization, market access and sales, tax policy advice, higher-quality / technical services, etc.

- Fifty four percent of companies consider that Moldovan BDS providers have the necessary knowledge, expertise, experience, professionalism and ethical standards to provide services necessary to support the future development of their businesses; 34% do not agree. Examples of knowledge, expertise and experience perceived as essential include: financial and accounting knowledge, market-related expertise, management expertise, communication expertise, etc.
- When asked under what conditions their willingness to pay would increase, the results indicate that better quality of BDS would stimulate firms the most, followed by a wider range of services and standards and professionalism.



3.4.3 Conclusions: demand for BDS

Use

- Information services are most widely used by respondents, while the results indicate lower, but similar levels for training and consulting.
- Contracted services deal mostly with financial reporting, taxation and accounting issues and legal and regulatory aspects.

Payment

- Business development services are mostly provided at no cost for the companies.
- On average, 75% of the services were provided for free. Instances of co-financing were limited.

Satisfaction

- Overall, respondents indicated relatively high levels of satisfaction with the use of business development services.
- Still, the pattern might be skewed as services were most often free; in the instances where the share of paid services was higher, satisfaction levels were lower.

Demand

- Moldovan companies indicate a strong interest in all types of BDS: information (62%), training (59%) and consultancy (48%).

Willingness to Pay

- There is a willingness to pay under certain conditions, such as if there are better quality BDS, if there is a wider range of services and the standards and professionalism of BDS providers could be raised.

3.5 Supply Survey

3.5.1 Introduction

The OECD, in cooperation with MoE and ODIMM, undertook a survey of 100 BSIs / BDS providers (private, public and non-government), of which 55 responded, during February-March 2013 in order to assess the supply for BDS services (see OECD, 2013b). The main results of the demand survey are presented here, leading to an extraction of the main findings, relevant to policy making in relation to BSI / BDS provision.

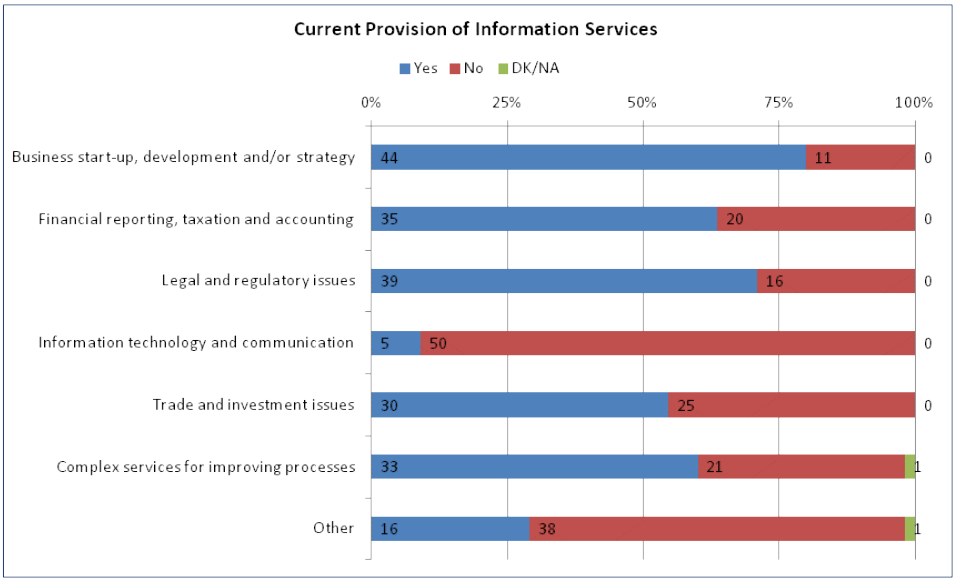
3.5.2 Key Findings

Profile of Surveyed Providers

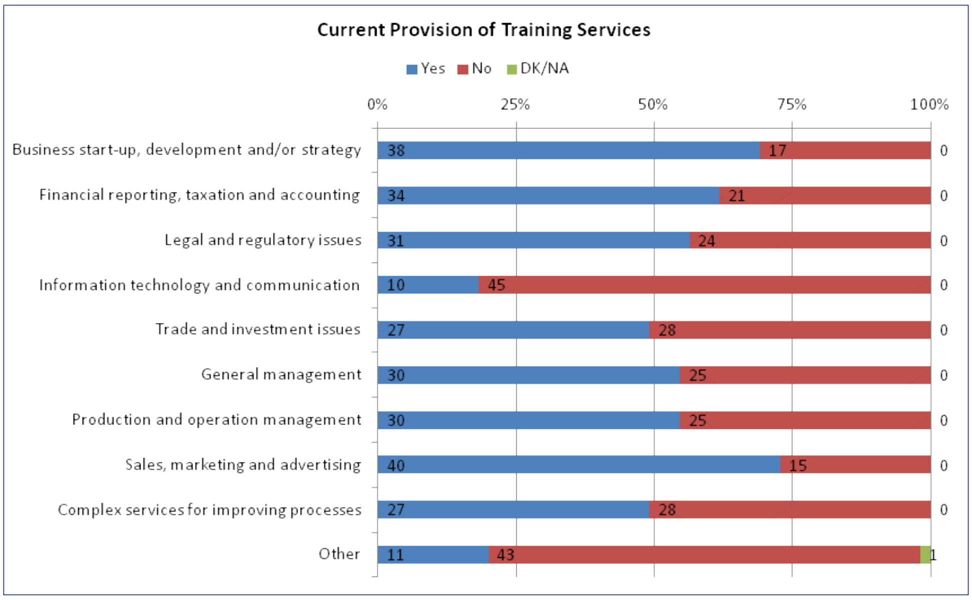
- Based on the survey response, BDS providers are evenly spread throughout the main regions of Moldova, albeit almost exclusively in the urban environment. The large majority are organised as NGOs. Virtually all of the surveyed BDS providers have been operating for a significant period of time (for around 10 years). The “newest” provider in the sample is providing BDS services since 2005, though this probably reflects the sampling frame.
- The sample is dominated mainly by smaller BDS providers, with the vast majority (86%) having a turnover of less than 60,000 EUR (~1,000,000 Lei) and 84% employing less than 10 employees.

Provision of Business Development Services

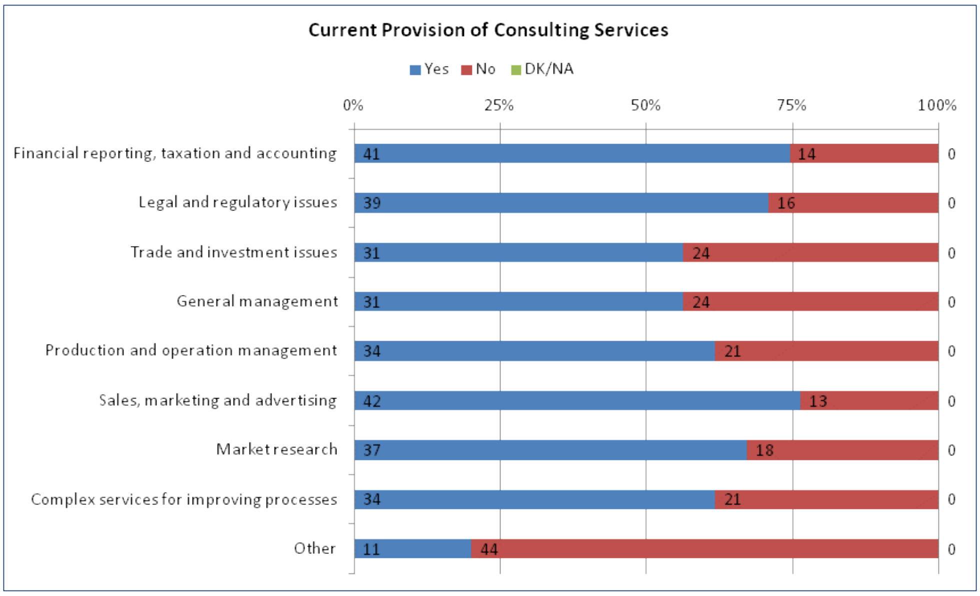
- In terms of the current provision of services, most provide standard BDS services such start-up, financial reporting and legal and regulatory issues. Relatively few provide information on trade and investment, complex services and ICT.



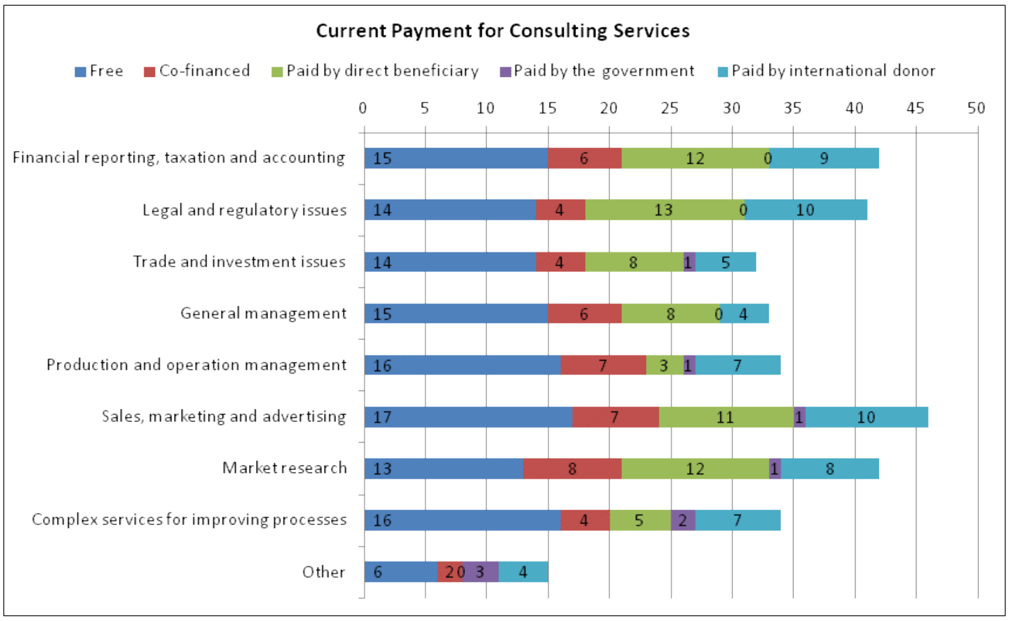
- The graphic below illustrates the current provision of training services. Again, relatively few BDS providers cover areas such as trade and investment, complex services and ICT.



- Finally, turning to the provision of consultancy services, relatively few BDS providers cover areas such as trade and investment, complex services, ICT as well as general management.

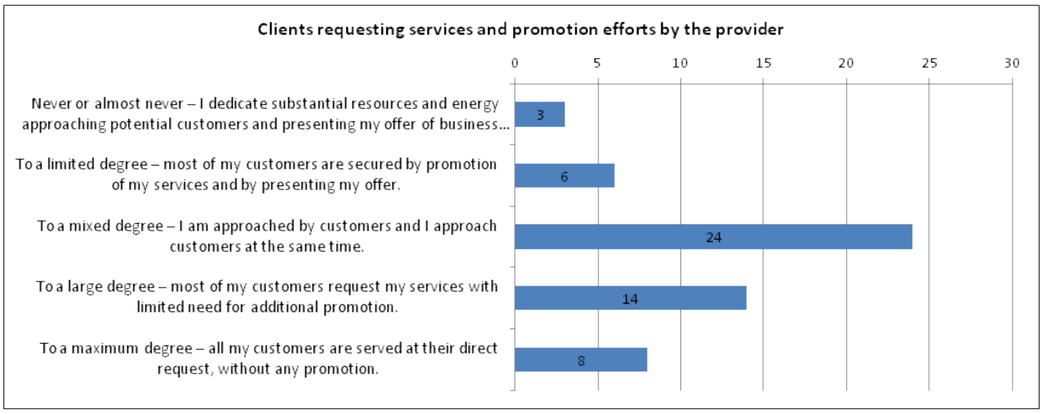


- An important recurrent issue is the extent to which BDS services are provided for free or not. The survey results indicate that information, training and consultancy BDS services are typically free or paid for by either the government or donors. The graphic below illustrates the situation for consultancy services. Not surprisingly, a higher percentage of the services are either co-financed or paid by the direct beneficiary since these are typically customised to the specific needs of the client.
- Nevertheless, the number paid by the direct beneficiary remains very low (though the amount of co-financed projects is greater), especially production and operation management (3 out of 34), complex services for improving processes (5 out of 41), trade and investment issues (8 out 32) and general management (8 out of 33). This implies significant scope for enhancing the take up of such services in the future.



Profile of Client Portfolio

- To a large degree BDS providers' main clients are predominantly end-user companies, mostly sole entrepreneurs (36%), SMEs (32%) and large enterprises (15%), with the remainder being rayons and municipalities (13%), international donors / organisations (2%) and government (2%). These end users / beneficiaries of these services are active in all sectors of the economy, especially agribusiness (29%), manufacturing (21%) and retail (17%).
- BDS providers most often secure their clients through a mixed degree of promotion, which involves an already existing interest from the potential customers. When asked about the main channel for promoting their services, two thirds of BDS providers indicated that they use direct contact (walk-in) to inform potential customers about their offers.



Barriers to the Provision of Business Development Services

- According to the surveyed providers, the top 5 barriers n the BDS market in Moldova are:
  - Insufficient understanding by companies of the potential benefits of BDS;
  - Lack of trained employees / expertise to provide a wide variety of BDS;
  - Insufficient capacity of companies to pay for BDS;
  - Under-developed legislation regulating the provision of BDS;
  - Lack of capacity to reach potential customers.

Stimulating the Provision of Business Development Services Market

- BDS providers were asked to rate the importance of various policy measures that could further stimulate the market. In line with earlier findings, the results indicate that further promoting the importance of

BDS to enterprise development would be important or very important (48%) and promotion of BDS through websites, databases, etc. (36%).

- In terms of financial support measures, not surprisingly BDS providers indicated a clear interest in more publicly supported, targeted co-financing initiatives (51%). BDS voucher schemes would also be welcome by 25% of BDS providers.
- Regarding regulatory support measures, BDS providers are keen on certification of their services (27%), but are supportive of implementation of quality standards for BDS (33%).

3.5.3 Conclusions: supply of BDS

Nature of Providers

- BDS providers may be evenly spread over the main regions of Moldova, but in reality are almost exclusively located in urban areas. They are mainly NGO in form and although most have been in the market for a long time (over 10 years) they remain small (less than 10 employees) and the vast majority (86%) have a turnover of less than 60,000 EUR (~1,000,000 Lei). This represents a good foundation for assisting BDS providers to the next stage of development.

BDS Services

- In terms of the current provision of services, most provide information, training and consultancy services for standard BDS activities such as start-up, financial reporting and legal and regulatory issues. However, relatively few provide information on trade and investment, complex services and ICT; in other words, the gap is mainly in the provision of high value adding BDS.

Market Potential

- Information, training and consultancy BDS are typically free or paid for by either the government of donors. Relatively few BDS are either co-financed or paid by the direct beneficiary; this increases as a percentage in the case of consultancy services, as these tend to be customised to the specific needs of the client. The percentage of complex BDS paid for is very low. This suggests underutilisation and potential to enhance the range, quality and take-up of such services in the future.

Barriers and Development

- The BDS market is hindered by key barriers including: i) lack of understanding by companies of the potential benefits of BDS; ii) lack of trained employees / expertise to provide BDS; iii) insufficient capacity of companies to pay for BDS; iv) under-developed legislation regulating the provision of BDS; v) lack of capacity to reach potential customers.

These barriers can be influenced to varying degrees by government policy and initiatives.

- Connected to the previous point, BDS providers particularly stress the need to further: i) promote the importance of BDS to enterprise development (48%); ii) promote BDS through websites, databases, etc. (36%); iii) develop publicly supported, targeted co-financing initiatives (51%); iv) develop BDS voucher schemes (25%); v) certify BDS providers (27%) and vi) implement quality standards for BDS (33%).

4 POLICY ROADMAP FOR BDS

4.1 Introduction

This Chapter aims to elaborate a policy roadmap for the Government of Moldova in relation to BSI / BDS service development. It starts with a series of policy conclusions are recommendations, which set out a series guidelines on how to better integrate existing BSI and services and how to better tailor them to different types of SMEs. The conclusions also highlight the gaps in the BSI provision. The policy conclusions and recommendations lead to the policy roadmap, which sets out the necessary steps for filling these gaps, for increasing the coverage and quality of BDS services and ensuring sustainability of BSI in Moldova.

4.2 Policy Conclusions and Recommendations

The preceding analysis has involved four main elements:

- International best practice in relation to BSI / BDS provision;
- Qualitative research involving discussions with a cross-section of BSI/BDS providers in Moldova;
- Quantitative research involving 206 enterprises to explore the demand for BDS in Moldova;
- Quantitative research involving 55 BSI / BDS providers to explore the supply of BDS in Moldova.

Based on the above, a number of key policy conclusions can be drawn regarding BSIs and BDS provision in Moldova. These are presented below and set the context for the Policy Roadmap to follow in this Chapter.

1. International evidence confirms BSI / BDS are a *key means of supporting the development of SMEs,* which are known to create employment, generate income and contribute to economic development and growth.
2. In terms of enterprise development, the principal role of the Government is to provide an enabling policy, legal and regulatory environment for SMEs, as well as public goods such as basic infrastructure, education and information services. However, the role also includes *BDS interventions designed to promote vibrant markets and a diverse range of BDS services*. In relation to BDS market development, the main function of governments (including donors, IFIs,

etc.) is *facilitation of the demand and supply sides of the BDS market*.

3. Turning to the provision of BSIs, the analysis demonstrated that this is a "catch-all" term that spans a highly diverse range of tools and mechanisms connected with SME development. Nevertheless, the research demonstrates that the situation is quite well developed in Moldova. A significant number of institutions exist supporting the development of SMEs in general.
4. However, the existence of a palette of BSIs does not mean that the system is well coordinated and effective as far as SME development is concerned, since these often arise as a result of an incremental process only partly influenced by government; the evidence presented in this report tends rather to the opposite conclusion.
5. At the institutional level, a greater degree of coordination is desirable. The development of business incubators is a case in point. Many different institutions, such as MoE / ODIMM, Agency for Innovation and Technology Transfer, academic institutions and others, exist and pursue their respective goals in relation to incubation. However, in the absence of clear policy, coordination and model for the development of such institutions (which is in the process of emerging based on the Soroca experience), there is a risk that many may suffer the same fate as the first phase of incubation, where all the institutions created turned out to be sustainable. Such a danger may equally apply to other forms of BSI. These do not appear to be regularly monitored and evaluated to ensure that government and other funds are being utilised effectively to ensure sustainability.
6. Connected to the preceding issue, although various BSIs exist, it is not clear whether they are performing effectively in supporting SMEs at the various stages of development. It is not even clear exactly how many BSIs exist across the country, the services and resources available, the contact details, etc. There is a need to develop a comprehensive database of BSIs, which needs to be freely available and regularly updated.
7. Connected with the preceding point, a culture of monitoring and evaluation needs to be stimulated, especially across the state-funded BSIs to assess whether public funds are being effectively utilised. This needs to be coupled with a process of evaluating the locations, services, effectiveness and sustainability of critical BSI infrastructure; this is clearly the role of government and would provide a basis for assessing the strengths and weaknesses, as well as the basis for strengthening the system through targeted interventions.
8. Turning to the development of a BDS market which is able to support start-ups, early growth and more mature, export-oriented enterprises, again, the situation is quite developed in Moldova. A solid foundation exists for further development, so as to ensure that a full palette of BDS services becomes available to SMEs at different stages of

development.

9. The evidence presented is that there are numerous BDS providers throughout the country. Such BDS providers include state institutions (such as ODIMM, AITT), regional bodies (e.g. three RDAs), municipalities (33 Economic Development including SME contact), universities (research, business centres, incubators, etc.), various business associations (national, sectoral, bilateral, etc.), NGOs (various target groups), private consultancies (so-called “Big Four”, as well as niche consultancies) and a multiplicity of freelancers (part time and full time).
8. However, although BDS services do exist for the pre-start, start-up and post-start–up stages of BDS development, this is not to say that the provision is adequate since some notable gaps persist.
9. Firstly, although such provision is spread geographically, it is highly concentrated in the urban areas for obvious reasons, not least because that is where the clients / market are also located. Policy efforts are needed to ensure that information, training and consultancy opportunities are made available in these areas.
10. Secondly and connected with the preceding point, the principal source of support in rural areas are the agricultural extension services which are provided by two NGOs, namely the AgroInform and ACSA. Anecdotal evidence, recurring frequently, suggests that these do provide good services but are reliant on state (Ministry of Agriculture) and international funding (donors and IFIs). Given issues such as rural poverty, migration and the need to maximise development in all parts of the country (as per various state strategies), it would appear to be the perfect time for the Government to assess, strengthen and secure the future provision of effective agricultural extension services; the SME development agenda could usefully complement and supplement the activities of this system.
11. Thirdly and connected with the preceding two points, it is important to improve the linkage, information flow, coordination and cooperation with the rayons, especially the rural ones, and in particular their Economic Divisions (typically 2-3 staff mainly involved in data and statistical analysis, rather than SME development per se). The SME Contact system needs to be reviewed so as to optimise the cooperation. Furthermore, consideration will need to be given to ODIMM funding a full-time SME Contact to ensure fuller cooperation. In the absence of ODIMM regional presence, this would appear to be a potentially cost effective and efficient tool of gaining geographical reach at relatively low cost. At the very least, information, training, consultancy support, etc. could be more effectively coordinated with the rural areas / regions of the country.
12. There are currently three RDAs (the gaps are Chisinau, Gagauzia and Transnistria), which based on international experience, have an

important role to play in relation to enterprise development, including supporting the development of SMEs. Based on the information available (it was not possible to visit them) they appear to be institutions in the making. The main point, from an SME development perspective, is that they currently appear to resemble grant making / processing tools (EU and GIZ funds) more than tools for regional development per se. If this is the case, this might be a lost opportunity for SME development and MoE / ODIMM should consider engaging with RDAs to ensure that they develop in a manner which makes full use of their potential for enterprise support.

13. The existence of thousands of NGOs, many of which are BDS providers to various target groups of relevance, not least women / youth / minority entrepreneurship, agro / tourism support, etc. is a cause for optimism. On the other hand, the great majority of such registered NGOs are either dysfunctional or only spring to life as and when donor and other public funds become available, then the Government may wish to review this situation and consider ways of focusing funds on the institutions that are active and delivering services. In terms of the former (largely inactive) it may be necessary to assess the process of registration and re-registration. In terms of the latter (active), they appear to concentrate on the delivery of information and training; the consulting service role could be reviewed and strengthened to ensure delivery of a wider palette of services, thus strengthening their financial base and contributing to sustainability.
14. Likewise, the existence of various generic and sectorial business associations is a positive situation. The Chamber of Commerce and Industry (CoCI) is the most important BSI with 2500 voluntary members, 90% of which are SMEs, a well as 13 rayon offices. It has infrastructure such as regional offices, specialist staff, VET Centre (training) and Marketing Centre (export) for members and non-members against a fee. It also has a network of consultants to draw upon. The Am Chamber focuses mainly on large firms and the Euro Chamber is only recently established. Others such as the Moldova - Italian Chamber and vice versa focus mainly on firms looking to register and operate in the country against payment. As for the other sectoral associations, many of which have been established with the support of donors. The business associations are delivering information, training and consultancy support with varying degree of success and usefulness as far as start-ups, early growth and export oriented firms are concerned; some are highly commercial and others are passive and experience existential crises. The sector would benefit from a review to assess capacities, services, funds and recommendations and technical support for better BDS provision and sustainability.
15. A key potential strength is the existence of BDS providers in the form of business consultancies firms; without knowing the exact numbers,

these does seem to be a range of private consultancies ranging from the "Big Four" to niche consultancies and businesses which successfully spun-off donor projects of various sorts. The EBRD database alone includes about 200 registered consultancies in the services delivered by BAS.

16. It appears to be not uncommon for the private consultancies to have established an NGO vehicle for delivery of BDS services. The principal reason for this appears to be because of two main reasons: i) firstly the fact that NGOs are exempt from VAT and this can be advantageous to some clients such as IFIs and donors but of greater importance, ii) the BDS market is not yet mature, which means that even well established consultancies raise a large percentage (up to 80%) of their turnover from public / donor sources, with the balance coming from commercial sources such as SMEs. This requires consultancies to follow a dual strategy and although it may maximise the business opportunities, it also raises the cost base; for example the different legal, tax and accounting systems need to be managed.
17. Although they were not covered by the BDS supply survey, in most countries, the largest group of BDS providers are actually in the form of freelancers, who may operate on a part time (such as academics) or full time basis (dedicated trainers and consultants). The MoE / ODIMM may wish to develop research to better understand the nature, skills and services provided by this sector, so as to nudge them into delivering services that are needed in the economy and to the quality and standard required, thus contributing to the BDS base (see also recommendations on quality and certification below).
18. The survey of BDS supply highlighted major strengths such as the fact that the majority of BDS providers have been in the market for 10 years, however, they remain fairly small (under 10 employees, typically with no support staff) and turnover remains fairly low for the vast majority of BDS providers (less than 60,000 EUR (~1,000,000 Lei) for 86%). The existence of NGO vehicles to supplement commercial consultancy has already been noted. These facts point to the existence of a BDS market which is evolving but not yet mature. The time appears to be right for structured policy support in further developing the BDS market.
19. Currently, BDS recipients tend to gain information and training services covering the financial reporting, taxation and accounting issues and legal and regulatory aspects. The use of consultancy and the commissioning of complex services are underdeveloped. BDS is mostly (75%) provided at no cost for the companies and instances of co-financing are limited, let alone full cost recovery. Nevertheless, Moldovan companies (demand survey) indicate a strong interest in all types of BDS: information (62%), training (59%) and consultancy (48%). Furthermore, there does appear to be a willingness to pay under certain conditions, such as if the quality of BDS is raised, if there is a wider

range of services and the standards and professionalism of BDS providers are raised.

20. In terms of the current provision of services (supply survey), most BDS providers deliver information, training and consultancy services for standard BDS activities such start-up, financial reporting and legal and regulatory issues. However, relatively few provide information on trade and investment, complex consultancy services and ICT; in other words, the gap appears to be mainly in the provision of high value-adding BDS services (more technical, complex, investment intensive services which also offer potential for cost reductions / efficiency gains / raised profits).
21. Moreover, information, training and consultancy BDS services are typically free or paid for by either the government of donors. Relatively few BDS services are co-financed or paid for by the direct beneficiary. The percentage of complex BDS services paid for is very low: production and operation management (3 out of 34 respondents), complex services for improving processes (5 out of 41 respondents), trade and investment issues (8 out of 32 respondents) and general management (8 out of 33 respondents). This suggests potential to enhance the range, quality and take-up of such services in the future, especially as a culture of co-financing for BDS services is beginning to take root.
22. For the BDS market to be stimulated a number of key barriers have to be tackled, according to the supply survey: i) lack of understanding by companies of the potential benefits of BDS; ii) lack of trained employees / expertise to provide BDS; iii) insufficient capacity of companies to pay for BDS; iv) under-developed legislation regulating the provision of BDS; and v) lack of capacity to reach potential customers. These barriers can be influenced by government policy and initiatives and are the subject of the remaining recommendations.
23. The regulatory base for the BDS / consultancy market needs to be assessed and reformed. The fact that consultancy is not a listed profession by state bodies and the resulting lack of a definition of consultancy services or projects means that state bodies are unable to recognise and commission consultancy activities. This acts as a constraint in the market, as well as for the economic development of the country.
24. The hitherto strong emphasis on the provision of free BDS services is in need of reconsideration. While this may be justified for the “pre/start-up” phase, this may not be the case for the growth and export phases of enterprise development. With the emergence of a palette of BSIs and BDS providers, this can lead to a crowding out effect and/or market distortion. Therefore, it would appear to be time for MoE / ODIMM to develop more nuanced BDS policy in terms of what (information, training and consultancy) can be provided for free; what should be co-financed; and what should be offered at market rates.

25. Moreover, state bodies such as ODIMM need to consider carefully the extent to which it coordinates in relation to SME development, as opposed to the extent to which it delivers information, training and consultancy itself. As its role and responsibilities have grown over time; it is increasingly appropriate to contract / sub-contract / commission the existing BDS providers to deliver its activities, increasingly performing the role of contractor and the application of quality control, monitoring and evaluation.
26. However, enterprises are unlikely to automatically trust such messages and act to commission more and higher value services unless this is combined with a process of raising the quality of professionalism of the consultancy sector. The emergence of consultancies is a noticeable trend, but the sector is not yet established on sound foundations (see staff, turnover, NGO tools, etc.). In other words, there is a need to support them to develop further services and expand the market beyond the large enterprises and a few medium enterprises. This may be done through the following four recommendations:
27. Certification: raising quality of individual consultants through a process of internationally recognised certification, recertification, regular training and education, etc. This would result in higher levels of knowledge, skill and experience which will raise the standards, levels of trust as well as develop the market for BDS through delivery of services to SMEs.
28. Association of consultancy professionals: a process of certification, recertification, etc. will automatically result in an increasing volume of consultancy professionals. The experience of other countries in the region suggests that the next likely step is for such a group of individuals to form an association; indeed, such a discussion has already started under the auspices of the EBRD BAS programme. The principal role of such as association would be to ensure the professionalization of the consultancy sector.
29. Awareness raising: once certification and professionalization is taking place, the next logical step in the process of developing the BDS market is likely to be the need to raise awareness of the potential benefits of BSI / BDS to growing, maturing and export-oriented enterprises, especially as far as more complex and higher value BDS services are concerned. Working in partnership with the Government, business associations, media and other stakeholders, the BSIs / BDS providers (not just the consultancy association) would promote the role of BDS in increasing know-how, productivity, efficiency, market share, profitability, etc.
30. Stimulation of the BDS market: a variety of market development interventions may be designed, with donor support, to address the weaknesses in the BDS market. The most common interventions include:
    - Co-financing initiatives: these are already being explored such

as by EBRD and the WB. These need to be reviewed, refined and build upon, thus adding skills and capabilities to the BDS providers while, at the same time, supporting targeted SMEs.

- Voucher initiatives: these address growing / maturing / exporting enterprises' lack of information about services and reluctance to try BDS services. The aim is to expand demand for BDS by providing information and encouraging SMEs to try services by subsidizing their initial purchase. At the same time, vouchers enable BDS providers to develop new, more complex value adding services, thus diversifying the palette of services available. However, vouchers are no panacea and need to be carefully crafted, using the experience of Moldova and elsewhere to ensure effective, transparent use.
- Information to consumers (firms): this addresses SMEs' general lack of information about BDS services and suppliers. Such databases aim to expand the demand for BDS by making SMEs aware of available services, suppliers, contact details, potential benefits, etc. Such information would be regularly updated.
- Technical assistance for BDS service development and commercialization: the aim is to build the capacity of new or existing BDS suppliers to profitably serve SMEs by developing new BDS services for SMEs, especially the complex, value adding services which are not generally available in the market. The aim is to assist with product development, market testing and support with the marketing and delivery of new services.

4.3 Policy Roadmap

The preceding section examined in detail the conclusions and presented a series of recommendations for the future development of BSIs / BDS provision in Moldova. The final section of the report presents the Policy Roadmap for strengthening the system.

4.3.1 1: Strengthen Policy Coordination in relation to BSI / BDS and SME policy more generally

1. Coordination meetings: Establish coordination forum meeting on a Quarterly Basis comprising: MoE, ODIMM, Academy of Sciences, Agency for Innovation and Technology Transfer, academic institutions, other Ministries (such as Agriculture and Regional Development), municipalities and others, such as

private sector providers.

2. Stock-take: undertake a comprehensive “stock take” of BSIs, the BDS services provides, the contact details etc. Make the database available on ODIMM and other web sites. Allocate responsibility to update the database every six months.
3. Evaluation of BSIs: Evaluate the locations, services, effectiveness and sustainability of critical publicly-funded BSIs to assess whether public funds are being utilised well (e.g. incubators, RDAs, parks, etc.). Determine policy recommendations for strengthening the system, such as ways of filling the gaps.
4. Models of development: Establish models for development of BSIs, such as incubators, RDAs, etc. including establishing monitoring and evaluation systems to secure effective use of public funds.
5. Project development: establish priority support programmes for BSI / BDS development and secure national and other funds for the effective development of the system of support.

4.3.2 2: Fill-in the rural gaps in BSI and BDS provision

1. SME Contacts: while there is a good reason for the concentration of BSI / BDS activities in urban, especially large urban areas, it is necessary to develop a policy orientation to ensure that information, training and consultancy opportunities are made available in rural areas through initiatives such as:
   a. Review the current nature and effectiveness of the ODIMM network of SME Contacts in the rayons.
   b. In the absence of a regional infrastructure, establish a full-time SME Contact at the level of the rayon.
   c. Establish a system which conveys all relevant information, training and consulting opportunities available throughout the rayons via the SME Contact and then out into all relevant BSI / BDS providers.
2. Economic Divisions: improve the linkage, information flow, coordination and cooperation with the rayons, especially the rural ones, and in particular their Economic Divisions. Capacity building is required to ensure that the Economic Divisions (2-3 staff) develop a fuller understanding of enterprise/SME development, including the range of BSIs and BDS services (not just a focus on data collection and analysis), thus playing a

fuller role.

3. Agricultural Extension Services: the principal sources of support in rural areas are the agricultural extension services delivered almost exclusively by AgroInform and ACSA. But these important services continue to be reliant on state and international funding and the continuing lack of sustainability of such services is a matter of concern for all, not just the Ministry of Agriculture. Further effort is required to strengthen and make sustainable the agricultural extension services, combined with a stronger emphasis on non-agricultural development.

4.3.3 3: Strengthen NGOs and Business Association to provide BDS

1. NGOs: The existence of thousands of NGOs with en entrepreneurial orientation (e.g. for women / youth / minority entrepreneurship, agro / tourism sector, etc.) is a strength and a weakness. Numerous such NGOs are either dysfunctional or dependent on sporadic public funds. It is necessary to evaluate and focusing public funds on BSIs that are active and delivering quality BDS services through: i) evaluation of effective NGOs with capacities ii) capacity building to strengthen palette of services and ensure sustainability iii) focusing support on fewer, effective institutions.
2. Business associations: the existence of various generic and sectorial business associations is positive as they deliver information, training and consultancy support with varying degree of success and usefulness as far as start-ups, growth and export oriented firms are concerned. But some are highly commercial and others are passive and experience existential crises. The sector would benefit from a review to assess capacities, services, funds and recommendations and technical support for better BDS provision and sustainability.

4.3.4 4: Deepen the Emerging BDS Market

1. Definition of consultancy services: assess and reform the regulatory base for the BDS / consultancy market. Consultancy is not a listed profession and the resulting lack of a definition of consultancy services / projects means that state bodies are

unable to recognise and commission consultancy activities. This acts as a constraint in the market, as well as in the economic development of the country.

2. Scale back free provision of BDS: the strong emphasis on provision of free BDS services needs to be reassessed and refocused. While this may be justified at the "pre/start-up" phase, it is less so at the growth and export phases of enterprise development. The emergence of a range of BSIs and BDS providers means that a balance must be struck which avoids crowding-out and/or market distortion. MoE / ODIMM must develop a nuanced BDS policy in terms of what information, training and consultancy can be provided for free; what should be co-financed; and what should be offered at market rates. State institutions will need to support this process.
3. Scale back direct provision of BDS by state institutions: state institutions need to reconsider the extent to which it delivers information, training and consultancy directly. As the market matures, state institutions must commission and sub-contract the existing BDS providers to deliver BDS services, increasingly performing the role of contractor and the application of quality control, monitoring and evaluation.

4.3.5 5: Raise Awareness and Quality of, and Trust in, BDS Provision

1. Certification of BDS provision: raise the quality of BDS providers (individual consultants, rather than institutions) through a process of internationally recognised certification, recertification, regular training and education, etc. resulting in higher levels of knowledge, skill and experience, thus raising standards and levels of trust.
2. Association of Consultancy Professionals: with an increasing volume of BDS providers / consultancy professionals, it is important to assist the development of an Association of Consultants to professionalize the BDS/consultancy sector, both public can private.
3. Awareness raising: as certification, quality and ethical standards and professionalization occur, it is necessary to raise awareness among entrepreneurs of the potential benefits of BSI / BDS, especially to growing, maturing and export-oriented enterprises. Promote the role of BDS in increasing know-how, productivity, efficiency, market share, profitability, etc. in partnership with the

Government, business associations, Association of Consultants media and other stakeholders.

4.3.6 6: Stimulate Provision of BDS Services and Development of the Market

1. Stimulation of the BDS market: a variety of market development interventions may be designed, with donor support, to address the weaknesses in the BDS market especially as far as the development of more complex and higher value adding BDS services are concerned. The interventions will include:
   a. Information for potential consumers of BDS (firms): SMEs lack information on BDS providers and the services available. The development of such a database will help expand demand for BDS by highlighting available BDS services, suppliers, contacts, qualification, experience, certification, etc.
   b. Co-financing initiatives: review, refine and build upon existing initiatives (e.g. EBRD and WB) through new co-financing projects and programmes designed to enhance the development of complex and higher value adding BDS services in Moldova, targeting SMEs. These will help stimulate the market.
   c. Voucher initiatives: these overcome SMEs' reluctance to try BDS services by providing information and encouraging SMEs to try services by subsidizing their initial purchase. The development of voucher initiatives will target assisting BDS providers to develop new, more complex value adding services, thus diversifying the palette of services available. Vouchers are no panacea and need to be carefully crafted, using the experience of Moldova and elsewhere to ensure transparent as well as effective use.
   d. Technical assistance for BDS service/product development and commercialization: build the capacity of BDS suppliers to profitably serve SMEs by developing new, demand-driven BDS services for SMEs, especially the complex, value adding services which are not generally available in the market. The technical assistance will support product development, market testing and support with the marketing and delivery of new services.

5 BSI / BDS PROJECT FICHE

5.1 Introduction

The Terms of Reference for the project require the preparation of a project fiche incorporating the recommendations of the Policy Roadmap. The project fiche is designed to provide an overview of the policy recommendations and roadmap with the aim of attracting donor support. The project fiche presented here has gone through part of the project planning cycle and further iterations will be required prior to finalisation.

5.2 Project Fiche

5.2.1 Background

Title: Strengthening the Business Support Infrastructure and Business Development Services

Location: Republic of Moldova

Implementation time: Three years

Overall objective: the overall objective is to increase the competitiveness of Moldovan SMEs through the provision of high quality business development services.

Project purpose:

The purpose is to strengthen the Moldovan business support infrastructure and the development and provision of business development services to SMEs.

Target groups: the project's activities will address the following:

- Micro, small and medium businesses;
- Consultants, NGOs, business associations and others offering business advisory services to SMEs, whose skills and competences will be upgraded;
- Public, semi-public and other stakeholders involved in developing a competitive Moldovan SME sector.

5.2.2 Description of Project

Background and justification

In terms of enterprise development, competitiveness and innovation, the principal role of the Government is to provide an enabling policy, legal and regulatory environment for SMEs, as well as public goods such as basic infrastructure, education and information services. However, international evidence confirms that the provision of an effective Business Support Infrastructure (BSI) and Business Development Services (BDS) are a key means of supporting the development of SMEs, which are known to create employment, generate income and contribute to economic development and growth. The role of Government includes developing BDS interventions designed to promote vibrant markets and a diverse range of BDS services. In relation to BDS market development, the main function of governments (including donors, IFIs, etc.) is facilitation of the demand and supply sides of the BDS market.

Turning to the provision of BSIs, analysis by the OECD (2012 and 2013) demonstrates that this “catch-all” term spans a highly diverse range of tools and mechanisms connected with SME development. Nevertheless, the research demonstrates that the situation is quite well developed in Moldova in that a significant number of institutions exist supporting the development of SMEs in general, including: incubators, parks, zones, business centres, development agencies, etc. However, the existence of a palette of BSIs does not mean that the system is well coordinated and effective as far as SME development is concerned, since these often arise as a result of an incremental process which is only partly influenced by government; if anything, the evidence tends to the opposite conclusion.

At the institutional level, a greater degree of coordination is desirable, since several ministries (Economy, Agriculture, Regional Development, etc.) and various other state bodies are involved (e.g. SME Agency (ODIMM), Academy of Sciences, Agency for Innovation and Technology Transfer, etc.). In addition, there are numerous BSIs / BDS providers throughout the country such as at the regional level (e.g. Regional Development Agencies), municipalities (33 Economic Development sections, including ODIMM SME contacts), universities (research, business centres, incubators, etc.), various business associations (national, sectorial, bilateral, etc.), NGOs (various target groups), private consultancies (“Big Four”, as well as niche consultancies) and a multiplicity of freelancers (part time and full time).

While the above is generally positive, it can also be a weakness. The development of business incubators is a case in point. Many different institutions, such as MoE / ODIMM, Agency for Innovation and Technology Transfer, academic institutions and others, exist and pursue their respective goals in relation to incubation. However, in the absence of clear policy, coordination and model for the development of such institutions, there is a risk that many may suffer the same fate as the first phase of incubation, where all the institutions created turned out to be sustainable. Such a danger may equally apply to other forms of BSI.

Connected to the preceding issue, although various BSIs exist, it is not clear whether they are performing effectively in supporting SMEs at the various stages of development. It is not even clear exactly how many BSIs exist across the country, the services and resources available, the contact details, etc. There is a need to develop a comprehensive database of BSIs, which needs to be freely available and regularly updated.

Moreover, a culture of monitoring and evaluation needs to be stimulated, especially across the state-funded BSIs to assess whether public funds are being effectively utilised. This needs to be coupled with a process of evaluating the locations, services, effectiveness and sustainability of critical BSI infrastructure; this is clearly the role of government and would provide a basis for assessing the strengths and weaknesses, as well as the basis for strengthening the system through targeted interventions.

International best practice highlights the need to develop a BDS market which is able to support start-ups, growth and mature, export-oriented enterprises. Once again, the situation is quite well developed in Moldova (OECD, 2013). A solid foundation exists for further development, so as to ensure that a full palette of BDS services becomes available to SMEs at different stages of development. However, although BDS services do exist for various stages of SME development, the provision is not yet adequate and notable gaps persist such as: i) a very high degree of concentration in the urban areas because that is where the clients / market are located. Policy efforts are needed to ensure that information, training and consultancy opportunities are made available in these areas; ii) the principal source of support in rural areas are the agricultural extension services which are provided by two NGOs (AgroInform and ACSA), though these remain reliant on state (Ministry of Agriculture) and international funding (donors and IFIs). There is thus a need to assess, strengthen and secure the future provision of effective agricultural extension services; the SME development agenda usefully complement and supplement the rural extension activities; iii) the linkage, information flow, coordination and cooperation with the rayons, especially the rural ones, and in particular their Economic Divisions needs to be strengthened. The ODIMM SME Contact network needs to be reviewed and strengthened, including establishing full-time SME Contacts, which would mean that information, training, consultancy and other forms of SME development support could be more effectively coordinated with the rural areas / regions of the country.

The existence of thousands of NGOs, many of which are BDS providers to various target groups of relevance, not least women / youth / minority entrepreneurship, agro / tourism support, etc. is a cause for optimism. On the other hand, a large proportion of registered NGOs are considered to be either dysfunctional or donor / public fund dependent and it is necessary to review them and consider ways of focusing funds on the institutions that are active and delivering services. Their training and consulting service roles need be reviewed and strengthened to ensure delivery of a wider palette of services, thus strengthening their financial base and contributing to sustainability.

Likewise, the existence of various generic and sectorial business associations (e.g. Chamber of Commerce, Am Chamber, Euro Chamber, various sectorial associations and chambers) is a positive situation. These are delivering information, training and consultancy support with varying degree of success and usefulness as far as start-ups, growth and export-oriented firms are concerned; some are highly commercial and others are passive and experience existential crises. The sector would benefit from a review to assess capacities, services, funds and recommendations and technical support for better BDS provision and sustainability.

A noteworthy issues is the existence of BDS providers in the form of business numerous consultancies (the EBRD BAS database alone includes 200 registered consultancies) delivering various forms of BDS. However, it is not uncommon for the private consultancies to have established an NGO vehicle for delivery of BDS services partly because of the tax advantages and partly because the BDS market is not yet mature, which means that even well-established consultancies raise a large portion of their turnover from public / donor sources, with the balance coming from commercial sources such as SMEs. Moreover, there are freelancers, who operate on a part-time (e.g. academics) or full-time basis (dedicated trainers and consultants).

An OECD survey of BDS supply (see Box 1) highlighted major strengths such as the fact that the majority of BDS providers have been in the market for 10 years, however, they remain fairly small (under 10 employees, typically with no support staff) and turnover remains fairly low for the vast majority of BDS providers (less than 60,000 EUR (~1,000,000 Lei) for 86%). The use of consultancy and the commissioning of complex services are underdeveloped. BDS is mostly (75%) provided at no cost for the companies and instances of co-financing are limited, let alone full cost recovery. In terms of the current provision of services (supply survey), most BDS providers deliver information, training and consultancy services for standard BDS activities such start-up, financial reporting and legal and regulatory issues. However, relatively few provide information on trade and investment, complex consultancy services and ICT; in other words, the gap appears to be mainly in the provision of high value-adding BDS services (more technical, complex, investment intensive services which also offer potential for cost reductions / efficiency gains / raised profits)

Box 1. Supply of BDS: Overview (OECD, 2013b)

Nature of Providers

- BDS providers may be evenly spread over the main regions of Moldova, but in reality are almost exclusively located in urban areas. They are mainly NGO in form and although most have been in the market for a long time (over 10 years) they remain small (less than 10 employees) and the vast majority (86%) have a turnover of less than 60,000 EUR (~1,000,000 Lei). This represents a good foundation for assisting BDS providers to the next stage of development.

BDS Services

- In terms of the current provision of services, most provide information, training and consultancy services for standard BDS activities such as start-up, financial reporting and legal and regulatory issues. However, relatively few provide information on trade and investment, complex services and ICT; in other words, the gap is mainly in the provision of high value adding BDS.

Market Potential

- Information, training and consultancy BDS are typically free or paid for by either the government of donors. Relatively few BDS are either co-financed or paid by the direct beneficiary; this increases as a percentage in the case of consultancy services, as these tend to be customised to the specific needs of the client. The percentage of complex BDS paid for is very low. This suggests underutilisation and potential to enhance the range, quality and take-up of such services in the future.

Barriers and Development

- The BDS market is hindered by key barriers including: i) lack of understanding by companies of the potential benefits of BDS; ii) lack of trained employees / expertise to provide BDS; iii) insufficient capacity of companies to pay for BDS; iv) under-developed legislation regulating the provision of BDS; v) lack of capacity to reach potential customers. These barriers can be influenced to varying degrees by government policy and initiatives.
- Connected to the previous point, BDS providers particularly stress the need to further: i) promote the importance of BDS to enterprise development (48%); ii) promote BDS through websites, databases, etc. (36%); iii) develop publicly supported, targeted co-financing initiatives (51%); iv) develop BDS voucher schemes (25%); v) certify BDS providers (27%) and vi) implement quality standards for BDS (33%).

At the same time, Moldovan companies (OECD demand survey, Box 2) indicate a strong interest in all types of BDS: information (62%), training (59%) and consultancy (48%). Furthermore, there does appear to be a willingness to pay under certain conditions, such as if the quality of BDS is raised, if there is a wider range of services and the standards and professionalism of BDS providers are raised.

Box 2. Demand for BDS: Overview (OECD, 2013a)

Use

- Information services are most widely used by respondents, while the results indicate lower, but similar levels for training and consulting.
- Contracted services deal mostly with financial reporting, taxation and accounting issues and legal and regulatory aspects.

Payment

- Business development services are mostly provided at no cost for the companies.
- 75% of the services were provided for free. Instances of co-financing were limited.

Satisfaction

- Overall, respondents indicated relatively high levels of satisfaction with the use of business development services.
- Still, the pattern might be skewed as services were most often free; in the instances where the share of paid services was higher, satisfaction levels were lower.

Demand

- Moldovan companies indicate a strong interest in all types of BDS: information (62%), training (59%) and consultancy (48%).

Willingness to Pay

- There is a willingness to pay under certain conditions, such as if there are better quality BDS, if there is a wider range of services and the standards and professionalism of BDS providers could be raised.

This reinforces the existence of a BDS market which is evolving but in need of structured support in further developing the BDS market. But for the BDS market to be stimulated a number of key barriers have to be tackled: i) consultancy is not a listed profession by state bodies and the resulting lack of a definition of consultancy services or projects means that state bodies are unable to recognise and commission consultancy activities, which constrains the market; ii) the hitherto strong emphasis may be justified for the “pre/start-up” phase, but the emergence of a palette of BSIs and BDS providers means that this can lead to a crowding out effect and/or market distortion. MoE / ODIMM need to develop a nuanced BDS policy in terms of what (information, training and consultancy) can be provided for free what should be co-financed and what should be offered at market rates; iii) in parallel, state bodies need to reconsider the extent to which they deliver information, training and consultancy directly themselves. It may be increasingly appropriate to contract / sub-contract / commission existing BDS providers to deliver BDS directly, which state bodies increasingly performing the role of contractor, quality control, monitoring and evaluation.

However, enterprises are unlikely to automatically trust BDS providers and commission more and higher value services unless a process of raising the quality of professionalism of the BDS provision / consultancy sector is devised. The emergence of consultancies is a noticeable trend, but the sector is not yet established on sound foundations (e.g. staff, turnover, NGO tools, etc.). There is a need to support the sector to develop further services and expand the market beyond the large enterprises and a few medium enterprises. This would be done through the following: i) certification: raising quality of individual consultants through a process of internationally recognised certification, recertification, regular training and education, etc. This would result in higher levels of knowledge, skill and experience which will raise the standards, levels of trust as well as develop the market for BDS through delivery of services to SMEs; ii) creation of an Association of Consultancy Professionals: a process of certification, recertification, etc. will result in an increasing volume of consultancy professionals which lends itself to the formation an association whose role would be to ensure the professionalization of the BDS provider / consultancy sector; and iii) awareness raising: the next step in the process of developing the BDS market is to raise awareness of the potential benefits of BSI / BDS to growing, maturing and export-oriented enterprises, especially as far as more complex and higher value BDS services are concerned. Working in partnership with the Government, business associations, media and other stakeholders, the BSIs / BDS providers would promote the role of BDS in increasing know-how, productivity, efficiency, market share, profitability, etc.

Finally, the BDS market is in the making but requires further stimulation through a variety of interventions, with state and donor support, to overcome the weakness in the BDS market. Four inter-related types of intervention are required: i) co-financing initiatives: the existing initiatives need to be reviewed and build upon, using international best practice, so as to enhance the services, skills and capabilities to the BDS providers. Simultaneously, targeted SMEs willing to part-finance the process will be supported, especially the growth and export-oriented enterprises; ii) voucher initiatives: would encourage SMEs to try services by subsidizing their initial purchase, enabling BDS providers to develop new, more complex value adding services, thus diversifying the palette of services available; iii) Information to consumers (firms): this would address SMEs' general lack of information about BDS services and suppliers through a database on available services, suppliers, contact details, potential benefits, etc. and would be regularly updated; and iv) technical assistance for BDS service development and commercialization: the aim of which would be to build the capacity of new or existing BDS suppliers to profitably serve SMEs by developing new BDS services for SMEs, especially the complex, value adding services which are not generally available in the market. The aim would be to assist with product development, market testing and support with the marketing and delivery of new services.

5.2.3 Activities

Component 1: Strengthen Policy Coordination in relation to BSI / BDS

Activities:

1.1 Coordination meetings: Establish coordination forum meeting on a Quarterly Basis comprising the key relevant institutions: MoE, ODIMM, Academy of Sciences, Agency for Innovation and Technology Transfer, academic institutions, other Ministries (such as Agriculture and Regional Development), municipalities and others, such as private sector providers.

1.2 Stock-take: undertake a comprehensive "stock take" of BSIs, the BDS services provides, the contact details etc. leading to the creation of a website compatible database for ODIMM and others. Allocate responsibility to update the database every six months.

1.3 Evaluation of BSIs: evaluate the tools, locations, services, effectiveness and sustainability of key publicly-funded BSIs (e.g. incubators, RDAs, parks, etc.) to assess whether public funds are being utilised well. Determine policy recommendations for strengthening the system, such as ways of filling the gaps and assist with the implementation of the resulting action plan.

1.4 Models of development: Establish models for development of BSIs, such as incubators, RDAs, parks, etc. based on Moldovan and international best practice, including establishing Monitoring and Evaluation systems for effective reporting and use of public funds.

1.5 Project development: establish priority support programmes for BSI / BDS development and mobilise the national and other funds for the effective development of the BDS system of support (especially in relation to Component 6 discussed below).

Component 2: Fill-in the rural gaps in BSI and BDS provision

Activities:

2.1 SME Contacts: Develop a policy orientation to ensure that information, training and consultancy opportunities are made available in rural areas through the following initiatives:

a. Review the current nature and effectiveness of the ODIMM network of SME Contacts in the rayons.

b. In the absence of a regional infrastructure, establish a full-time SME Contact at the level of the rayon.

c. Establish a system conveying information, training and consulting opportunities available throughout the rayons via the SME Contact and on to the relevant BSI / BDS providers.

2.2 Economic Divisions: improve the linkage, information flow, coordination and cooperation with the rayons, especially the rural ones with a focus on the Economic Divisions. Assess needs and undertake a programmes of capacity building designed to ensure that the Economic Divisions develop an understanding of local economic / enterprise development / investment attraction, including the development of a range of BSI tools and BDS services, thus enabling them to play a fuller economic role in the rayons.

2.3 Agricultural Extension Services: the principal sources of support in rural areas are the agricultural extension services delivered almost exclusively by AgroInform and ACSA. Since these remain reliant on state and international funding, evaluate their agricultural and BDS services and determine the requirement to make agricultural extension services effective and sustainable (such services are a matter of concern for all, not just the). Determine and implement, in cooperation with the Ministry of Agriculture, a programme of activities designed to strengthen and make sustainable these services, including with a stronger emphasis on non-agricultural enterprise development.

Component 3: Strengthen NGOs and Business Association to provide BDS

Activities:

3.1 NGOs: Assess the nature of NGOs playing an economic role and determine the reasons why they remain either dysfunctional or dependent on sporadic public funds. Determine which MGOs have capacities and deliver quality services and what their development need are. Based on the preceding needs analysis, undertake a capacity building programme for up 20-40 NGOs to widen and strengthen their palette of information training and consultancy services (with a focus on commercially oriented activities), so as to enhance quality of services and prospects of sustainability. Finally, determine a policy to encourage the focusing of public support to the NGOs with capacities and long term prospects.

3.2 Business associations: Moldova has numerous generic and sectorial business associations deliver information, training and consultancy support with varying degree of success and usefulness to their members (and often others on a fee paying basis). Some are highly commercial, others are passive and experience difficulties in continuing operations, especially those initiated by donor-funded projects. A review will assess their capacities, services, budgets, make recommendations for strengthen them and deliver a technical assistance for better BDS provision, with a focus on quality, diversification of services and a focus on demand-oriented services.

Component 4: Deepen the Emerging BDS Market

Activities:

4.1 Definition of consultancy services: Consultancy is not a listed profession which means that state bodies are unable to recognise and commission consultancy activities, thus constraining the market. The project will assess the situation and propose reforms connected with the establishment of the BDS / consultancy sector in Moldova.

4.2 Scale back free provision of BDS: the strong emphasis on provision of free BDS services requires assessment and re-focussing. While this may be justified at the "pre/start-up" phase, it is less so at the growth and export phases of enterprise development. The emergence of a range of BSIs and BDS providers means that a balance must be struck which avoids crowding-out and/or market distortion. The project will assist MoE / ODIMM to develop a nuanced BDS policy in terms of what information, training and consultancy can be provided for free; what should be co-financed; and what should be offered at market rates. A process and dialogue and consultation will be implemented to ensure that the relevant state institutions understand and support this process.

4.3 Scale back direct provision of BDS by state institutions: connected with the preceding activity, state institutions need to assess the extent to which they should deliver information, training and consultancy directly. As the BDS market matures, state institutions will be encouraged to limit their role to commissioning and sub-contracting existing BSIs to deliver BDS services. A process and dialogue and consultation will be implemented to ensure that the relevant state institutions understand and support this process. Furthermore, capacity building will be delivered to raise the knowledge and ability of state bodies to increasingly performing the role of contractor and the application of transparent and effective commissioning, quality control, monitoring and evaluation.

Component 5: Raise Awareness and Quality of, and Trust in, BDS Provision

Activities:

5.1 Certification of BDS provision: the project will help raise the quality of BDS providers (with a focus on individuals, rather than institutions) through a process of gaining internationally recognised certification, recertification, regular training and education, etc. resulting in higher levels of knowledge, skill and experience, thus raising standards and levels of trust. A minimum of 50 individuals will be assisted the gain training and certification in an internationally recognised management consultancy organisation.

5.2 Association of Consultancy Professionals: with an increasing volume of BDS providers / consultancy professionals, it will be possible to stimulate the development of an Association of Consultants to professionalize the BDS/consultancy sector, both public can private. Mindful of the mixed success in catalysing the establishment of business association, this process will utilise international best practice and build-in the necessity to become sustainable from the beginning via a business planning process, combined with capacity building for the board / management.

5.3 Awareness raising: as a process of certification, improvement in quality, raising of ethical standards and general professionalization of the sector occurs, the project will assist with raise awareness among entrepreneurs of the potential benefits of BSI / BDS, especially to growing, maturing and export-oriented enterprises. The role of BDS in increasing know-how, productivity, efficiency, market share, profitability, etc. will be promoted, in partnership with the relevant state bodies, business associations (including the Association of Consultants) media and other stakeholders.

Component 6: Stimulate Provision of BDS and Development of the BDS Market

Activities:

6.1 Information for potential consumers of BDS (firms): SMEs lack information on BDS providers and the services available. The project will develop a database of available BDS services, suppliers, contacts, qualification, experience, certification, etc., to help expand demand for BDS. The database will need to be regularly updated and transferred to an appropriate custodian.

6.2 Co-financing initiatives: the project will review, refine and build upon existing initiatives (e.g. EBRD and WB) as well as international best practice by established a co-financing programmes designed to enhance the development of complex and higher value adding BDS services in Moldova, targeting **100 SMEs**, thus stimulating the market.

6.3 Voucher initiatives: vouchers help overcome SMEs' reluctance to try BDS services by providing information and encouraging SMEs to try services by subsidizing their initial purchase. The development of voucher initiatives will assist BDS providers to develop new, more complex value adding services, thus diversifying the palette of services available. Vouchers are no panacea and need to be carefully crafted, using the experience of Moldova and elsewhere to ensure transparent as well as effective use. Through the initiative **200 SMEs** will be supported, as well as ca. **100 BDS providers**.

6.4 Technical assistance for BDS service/product development and commercialization: this part of the project will help build the capacity of BDS suppliers to profitably serve SMEs by developing new, demand-driven BDS services for SMEs, especially the complex, value adding services which are not generally available in the market. The technical assistance will cover the development of **20 new BDS services** to SMEs and will support product development, market testing and support with the marketing and delivery of new services.

5.2.3 Indicative Budget

Item	Description	Euro
Component 1	1.1 Coordination meetings 1.2 Stock-take of BSIs 1.3 Evaluation of BSIs 1.4 Models of development 1.5 Project development	250,000
Component 2	2.1 SME Contacts 2.2 Economic Divisions 2.3 Agricultural Extension Services	250,000
Component 3	3.1 NGOs 3.2 Business associations	150,000
Component 4	4.4 Definition of consultancy services 4.5 Scale back free provision of BDS 4.6 Scale back direct provision of BDS by state institutions	100,000
Component 5	5.1 Certification of BDS providers 5.2 Association of Consultancy Professionals 5.3 Awareness raising of BDS	250,000
Component 6	6.5 Information for potential consumers of BDS (firms) 6.6 Co-financing initiative 6.7 Voucher initiative 6.8 Technical assistance for BDS service/product development and commercialization	1,500,000
Incidentals		150,000
TOTAL		**2,650,000**

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