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THE CONSEQUENCES OF THE WAR IN UKRAINE ON THE ECONOMY OF THE REPUBLIC OF MOLDOVA

A STUDY OF VULNERABILITIES

CHISINAU, APRIL 2022

This study was produced by the Economic Council under the Prime Minister based on the proposals of the business sector affected by the war in Ukraine. It was developed with the support of the United States Agency for International Development and of the Government of Sweden within the Future Technologies Project. The content of this document does not necessarily represent the views of USAID, the US Government or the Swedish Government.

Authors:

Andrei Zbanca – Agro-business consultant, State Agrarian University of Moldova

Dorel Noroc – Fiscal consultant, Policy manager at Amcham Moldova

Dumitru Vicol – Consultant, analyst IPRE

Lilian Bejan – Consultant, Doctor of Economics (PhD)

Sorin Hadarca - Team Leader, Founder of CAPSA Group S.R.L. Expert in public policy, strategic planning, monitoring and evaluation.

Contributors:

Diana Lazăr – Market Functions and Partnerships Director, FTA Moldova. Author of normative acts for the wine industry reform. Doctor in Law (PhD).

Sergiu Rabii – Future Technologies Sectors Director, FTA Moldova.

Carolina Linte – Executive Director, National Association of Milk and Dairy Producers "MILK". Dairy expert.

List of abbreviations

AIPA	Agency for Intervention and Payments in Agriculture
AITA	International Association of Road Hauliers
BMA	Bureau of Migration and Asylum
CGF	Credit Guarantee Fund
CFM	Moldovan Railways
EM	Environmental Agency
FDAED	Fund for the Development and Acceleration of Sustainable Economy
FNDAMR	National Agricultural and Rural Development Fund
FVV	Vine and Wine Fund
LNG	Liquefied natural gas
MAFI	Ministry of Agriculture and Food Industry
MAS	Moldovan Academy of Science
MC	Ministry of Culture
ME	Ministry of Economy
MEC	Ministry of Education and Research
MF	Ministry of Finance
MIRD	Ministry of Infrastructure and Regional Development
ME	Ministry of Environment
MMPS	Payment System MMPS
NAFS	National Agency for Food Safety
NIM	National Institute of Metrology
NBM	National Bank of Moldova
NBS	National Bureau of Statistics
ODIMM	Organization for Development of Small and Medium-Sized Enterprises

ONVV	National Office of Vine and Wine
PSA	Public Services Agency
SMEs	Small and medium-sized enterprises
STS	State Tax Services
SV	Customs Service

CONTENTS

INTRODUCTION

On February 24, 2022, the reality changed. The Republic of Moldova has built peaceful relations with all its partners over the years, however, the recent events in Ukraine have profoundly marked our economy and the society, as a whole. Therefore, our first instinct was to help the ones in imminent peril – women and children who have fled and sought refuge. The society's solidarity effort has been unprecedented, shattering the foundations of the economic paradigm which argues that everyone pursues one's own self-interests. Nonetheless, a cold-blood analysis of the new reality unequivocally proves that the Republic of Moldova's economy is vulnerable, while the impact of the war waged by the Russian Federation on the territory of Ukraine, along with the previous shocks generated by the pandemic crisis and the fuel prices spike, is tremendous.

Making a forecast is not the objective of this report. Obviously, under the current circumstances, the number of uncertainties is really overwhelming for a forecast to shed some light. Still, we cannot overlook the strong signals coming from the business sector that directly point to one part of the economic operators which cannot longer bear the upheaval and their failure will entail consequences for the food and energy security of the Republic of Moldova. According to the International Monetary Fund, impacts will flow through three main channels. "One, higher prices for commodities like food and energy will further push up inflation, eroding in turn the value of the incomes and weighing on the demand. Two, neighboring economies in particular will grapple with disrupted trade, supply chains, and remittances as well as an historic surge in refugee flows. And three, reduced business confidence and higher investor uncertainty will weigh on asset prices, tightening the financial conditions and potentially spurring capital outflows from the emerging markets."[1]

Based on the currently available information, the aim of this report is to identify the main risk areas, the scale of potential losses and the necessary response to be undertaken so that things do not slope. Therefore, we are providing the Government with a roadmap with a series of immediate actions that are much-awaited by the business sector. Likewise, we rely on the fruitful partnership between the Government and the business sector and we count on the international actors reaching cohesiveness, being perfectly aware that this unity demands both form and content. Hence, we propose a list of potential projects whose aim is to enhance the resilience of the national economy.

Peace.

[1] How War in Ukraine Is Reverberating Across World's Regions (15/03/2022)

EXECUTIVE SUMMARY

The report on the consequences of war in Ukraine on the economy of the Republic of Moldova is produced by the Economic Council to the Prime Minister based on proposals from business community. The development of the study was supported by the United States Agency for International Development and the Government of Sweden through Technologies of the Future Project.

This report does not have the objective of making a forecast. It is clear that in the present situation the number of unknowns is too overwhelming for a forecast to add clarity. What we suggest through this report is to identify, based on the information we have at the moment, which are the main risk areas, what is the magnitude of potential losses and what are the necessary interventions so that things do not go down a downward slope. In this regard, we have identified the following vulnerabilities faced by the national economy:

- **Exports to countries involved in the war are in the risk zone** therefore solutions are being sought for production of apples, medicines, wines, table grapes. The aggregate volume of exports to the three countries implicated in war (Ukraine, Belarus and the Russian Federation) constitutes $ 437 million. It is very plausible that these exports will not be realized either due to the closure of transport corridors or due to a decrease in purchasing power;
- **Disruption of imports from countries involved in the war directly affects value chains**: agricultural production, furniture industry, construction. It is primarily about imports of raw and semi-manufactured materials from the three nominated countries, which jeopardizes domestic production. An indirect effect on domestic industries participating in international value chains is related to the decrease in global demand for finished production (automotive industry);
- **Food security is under threat by the low self-supply of milk and poultry meat**. In relation to these positions, Moldova faces a deficit of domestic production, which was traditionally fueled by imports from Ukraine and Belarus;
- **Rising world energy prices** (coal, oil, gas) and fertilizers have led to increased costs in agriculture and transportation services. The most energy consuming sectors of the national economy are transport, cement production and primary agriculture. In case of transport, costs are borne by enterprises that use transport services in any sector of the national economy;
- **Tight monetary policy and investor reluctance constrain access to finance**. It should be mentioned that the basic rate of the NBM serves as a reference rate within international credit lines, which normally target access to finance on more concessional terms than market ones. However, with the increase in the base rate, this pool of lending resources is no longer concessional enough;
- **Demographic mobility is essentially changing the landscape of labor relations**. It is very plausible that Moldovans working in the Russian Federation will return to the country, which will impact the volume of remittances from labor in the short term. At the same time, the exodus of labor force from Ukraine and Russian Federation creates competitive advantages for the recipient countries. The digitization of permits and the rules for conducting remote work are gaining traction.

Depending on the vulnerabilities identified above, the room for solutions for enterprises in the national economy focuses on the following: a. Reorientation of affected exports to new markets and domestic consumption; b. Mitigation of cost pressures caused by rising energy and fertiliser prices; c. Increasing the level of self-supply of milk and poultry meat through import substitution; d. Facilitating investments in post-harvest and processing infrastructure, in new vineyards plantations to access new markets; e. Simplifying business procedures to enable remote activity; f. Diversification of the incentive package accessible to SMEs; and g) attracting investment in the smart economy (ICT, research and development, creative industry).

In practical terms, Economic Council proposes to the Government a roadmap containing a series of immediate and short-or medium-term actions aimed at increasing the resilience of Moldovan economy in the context of the war in the neighboring country. These actions are grouped into four key blocks, addressing one or more of six identified vulnerabilities. More specifically it is about:

A. **Regulations needed to simplify business** (29 actions that do not require budgetary resources or involve non-essential budgetary costs);
B. **Targeted budgetary compensation** for the sectors affected by the war in Ukraine (4 types of temporary compensations whose costs for the public budget amount to 1.535 million lei or about 76 million euros);
C. **Investment projects** in areas related to economic resilience and require additional sources of financing from credit lines offered by international organizations (13 new credit lines for a volume of resources amounting to EUR 1.2 billion for the next 3 years);
D. **Grant programs** for business development (contracting additional financial means amounting to EUR 295 million for 8 grant programs currently administered by ODIMM).

For the actions in areas B, C and D we have developed project sheets that provide technical details on the targeted sectors, issues identified, implementation mechanism and costs associated with the implementation. Finally, we find that the roadmap deriving from the listed actions is a living document, adjustable according to how events are going to unfold in the future.

At the same time, we appreciate highly the commitment shown by line ministries in drafting the roadmap. Technical details on proposed actions and project sheets were discussed in a participatory manner with specialists from the Ministry of Economy, Ministry of Agriculture and Food Industry, Ministry of Finance, Ministry of Infrastructure and Regional Development, as well as from subordinate institutions. We would like to thank them for their cooperation.

IMPACT OF THE CRISIS ON THE ECONOMY

EXPORTS TO THE AFFECTED COUNTRIES

The Republic of Moldova's exports to Ukraine, Russia and Belarus are affected by the war. Based on the 2021 annual volume, 13.9% of the exports of commodities had this very region as destination, amounting to a total of $437 million. The payments to the importers from the Russian Federation (exports worth $276 million) are threatened by an increased currency risk (only in roubles) and transport costs that doubled (because of the need to bypass the area affected by war). Ukraine's economy (exports amounting to $79 million) is blocked by the war, the importers' payment capacity is affected, the consumer demand has dropped as a consequence of the population exodus and of the diminished purchasing power. Exports to Belarus (amounting to $68 million) are subject to some increased transport costs, the consumer demand being impacted by the sanctions imposed on the country. A fall in exports by US$ 437 million would lead to a significant decline in GDP.

Figure 1. Major categories of goods exported to Ukraine, Belarus and the Russian Federation

Source: NBS

Among all exporters, producers of apple ($85 million exported to the Russian Federation in 2021), wine and ethanol ($57 million exports to the three states involved in the war), grapes ($22 million to the three states), fruits ($16.3 million exported to the Russian Federation and Belarus), rape seeds ($5.7 million exported to Ukraine), fruit juice ($8.7 exported to the Russian Federation), cheese and curd ($6.7 exported to the Russian Federation), and maize ($5.1 exported to Belarus) have been hardest hit by the war in Ukraine. All in all, the agri-food sector of the Republic of Moldova faces the need for identifying alternative solutions for the goods worth $200 million.

In 2021, the Republic of Moldova exported medicines in doses to the three countries from the region affected by the war, reaching significant sales volumes in Ukraine ($13.7 million), Belarus ($1.5 million) and the Russian Federation ($54.2 million). The representatives of the business community claim that goods are delivered to Russia by bypassing Ukraine. Though the transport cost soared to double the cost of the previous month, it is still insignificant with respect to the value of a lorry. Actually, in the context of the medicine shortage faced by Russia, the pharmaceutical sector does not seem to be affected.

By virtue of the reduced costs and the awareness of the regional topography, the Republic of Moldova used to export transport services. From 2015 onwards, the Moldovan transporters became more competitive compared to those from Ukraine, then - from Russia and Belarus. In Moldova, drivers' salaries rapidly increased compared to drivers' salaries in the aforementioned countries. Even in the absence of a net advantage, according to AITA's estimations (the International Association of Road Hauliers of Moldova), the Moldovan transport companies annually exported transport services worth $300 million. The majority of services used to be delivered to beneficiaries from Russia. Now, most probably, the export of transport services will go down several times. Currently, the number of transit authorizations is not sufficient to cover our own needs. In 2021, almost 60% of the transit through the Republic of Moldova by foreign companies was done via Siret customs office, bypassing our territory. Thus, the capacity to demand transit authorizations from the respective countries dropped. Following the negotiations, we could get some facilities – authorizations issued asymmetrically to serve the Moldovan importers and exporters. It is unlikely that the neighboring countries will be that "understanding" in case of transport services delivery to a third party. This could reduce to zero the export of transport services.

The loans provided to agriculture, food industry, manufacturing industry, transport and telecommunication amounted to MDL 11.8 billion at the end of February, that is 20.9% of the total loan portfolio. The military conflict might hinder the payment capacity of some economic entities which will deteriorate the loans portfolio. Thus, the rate of non-performant loans for the entire banking sector and SMEs could increase from 6.62% and 8.57%, by 1-2 percentage points respectively. Nevertheless, the conservative macro-prudential policies lately implemented by the NBM would allow the banking sector to absorb these shocks. As a consequence, the return on capital might drop from 14.98% to 14%.

IMPORTS FROM THE AFFECTED COUNTRIES

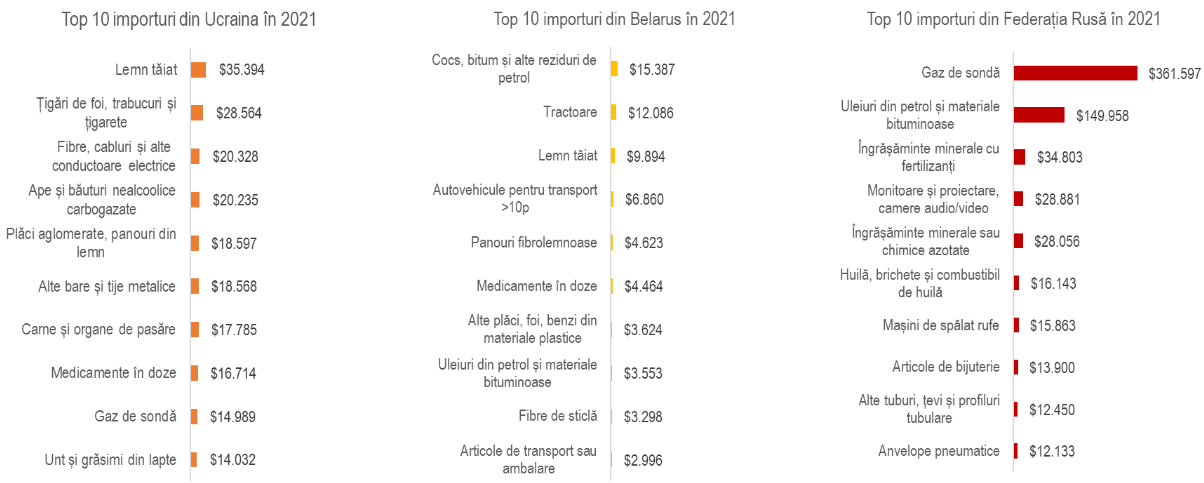
The imports from the affected countries represented $1,865 million in 2021, that is 26% of the total amount of imports. It should be mentioned that the value of the imports from the Russian Federation has increased significantly (from $603 to $1,053 million) following the worsening of the trade terms – double gas prices, significant increase of engine oil (56%), fertilizers (37%), and pipelines (71%) prices.

The imports from Ukraine ($667 million) are diverse – the top 10 import categories account for only 30% of the structure of the imports from this country. The share of Belarus in the structure of imports is relatively small ($145 million), but, together with Ukraine, it is an important supplier of wood and building materials. Theoretically speaking, the reduction of the imports could have a positive impact on the trade balance and GDP, but there are two big issues: 1. A surge in the natural gas prices would clearly lead to a value increase of the imports by at least $500 million (based on the average price of $750/1000m3) and a proportional decline in GDP.

The most affected category of imports are the mineral fertilizers and nitrogen fertilizers originating from the Russian Federation ($63 million). They are essential for the farm production and have to be substituted with imports from other countries (the Western Balkans?) at less competitive prices than those from the Russian Federation. Another category of imports are the ones from Ukraine: drinking water and non-alcoholic beverages ($20.2 million), poultry meat ($17.8 million) and butter ($14 million). These could be substituted with local production or imports from the EU. Therefore, it is essential to maximally explore the potential to substitute these two categories of imports what could have a positive impact on the GDP, thus generating a 0.4% growth. Another category of important imports for the farm producers is the farm equipment (tractors) imported from Belarus. In 2021, their value amounted to $12 million.

Furniture manufacturing in the Republic of Moldova depends on the wood and wood items imported from Belarus and Ukraine ($68 million). In order to maintain the production, it is essential to replace the imports with raw materials from a third country. Another affected category is the import of cables, fiber and other electrical conductors which are worth $20.3 million. These used to be brought from Ukraine and are essential for the local industrial manufacturing. At the same time, heavy industry and the construction sector use tubes, pipelines and tubular profiles from the Russian Federation ($12.4 million) which also have to be replaced.

Figure 2. Major categories of goods imported from Ukraine, Belarus and the Russian Federation



Source: NBS

Building materials have a relatively high cost compared to their weight. Thus, the transport costs are often determinant when choosing the supplier. The double or triple costs to transport of building materials from Russia led to a halt in the import of building materials (mineral wool, gypsum plasterboards, sealants, plasters, glass for double-glazed windows, PVC profiles etc.). The imports from Ukraine significantly dropped, the majority of manufacturers of building materials being located in the South-Eastern part of the country (regions Zaporizhzia, Donetsk, Kherson, and Dnipro). Some companies from Ukraine try to re-establish the production and the delivery. For example, Kyivmetaloprom covers the travel costs from Kiev to Moldova (under the DDP). The lack of such products will lead to an increase in the share of products of a similar quality at a similar price from Romania, Germany, Bulgaria, Poland, without any significant impact on the economy.

The loans provided to the trade sector amounted to approximately MDL 12.1 billion or 18.6% of the total portfolio. The challenges related to the transport of goods and the disruption of some value chains will have a mid-term impact on the profitability of some trade companies. Still, the high number of refugees in Moldova represents an incentive for certain trade sub-sectors and HORECA and contributes to the increase in the sales volume, thus compensating the negative effects related to the imports, the low purchase power and the uncertainty. As a result, in the short term, we might not see a deterioration in the quality of the loans portfolio for the trade sector yet.

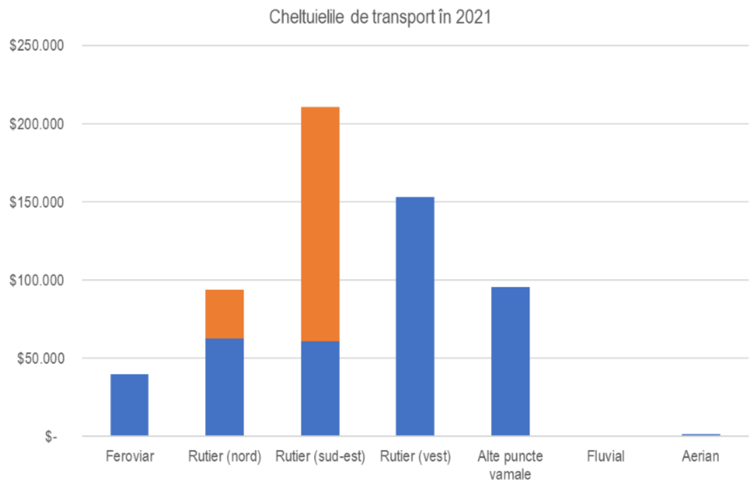
TRANSPORT CORRIDORS

The trade in goods to North and East is subject to crossing the territory of Ukraine, which is currently affected by war. According to the estimations made with the support of USAID in 2018[2], almost 33.2%

[2] Moldova Trade Corridor Assessment, 18/03/2018

of the lorry traffic at the border takes place in this direction, whereas the other 41% are carried out at border crossing points with Romania. The use of bypasses implies additional transport costs. Thus, the itinerary of goods bypassing Ukraine in the North entails a 3-4 times increase of the costs, while the itinerary of goods bypassing Ukraine via Romania, Bulgaria, Turkey and Georgia involves an increase of costs by 4-7 times. Hypothetical, while the structure of the international trade is comparable to that of 2021, additional transport expenditures can amount to $181 million.

Figure 3. Costs of the routes to bypass the territories affected by war



Source: NBS (itinerary of goods), USAID TCA (cost per tons-km), ANTA (bypass routes)

The increase of transport expenditures derived from the need to bypass the zones affected by war entails an increase in the costs of fuel. According to the representatives of the business sector, the approximate cost of a lorry route amounted to $1.2-1.5 thousand before the rise in fuel prices. Nowadays, this cost is of approximately $4-6 thousand what represents a strong blow to economic operators, whose trade relations imply tonnage and volume. For purposes of comparison, the pharmaceutical industry, which is exporting medicines to the Russian Federation, is not significantly affected. At the same time, importers of building materials and raw materials and agricultural exporters are incurring significant losses.

The issue with transport corridors is exacerbated by the isolation of Odessa Sea Trade Port. The Port of Constanta in Romania is a more expensive alternative. The port pricing in Constanta is considerably higher than in Odessa, affecting low value products per kilogram.

TRADE WITH OTHER STATES

EU economic growth has already been revised by more than 1-1.5 p.p. and the escalation of the military conflict could lead to a stagnation or even recession. Consequently, the economic slowdown of Moldova's main trading partner will affect the companies exporting to the EU. However, these effects could be offset in the medium term through opening new markets, such as Switzerland. But the still relatively low quality of the Moldovan products will limit the potential of such opportunities in the short run. In conclusion, loans to the companies exporting to countries other than those affected will deteriorate only to a limited extent.

The international economic relations are also affected by the war in Ukraine, including by the sanctions imposed to the Russian Federation. The Russian Federation supplies 35% (135bcm) of Europe's gas consumption. The EU's intention to reduce the dependence on the Russian gas would lead to higher prices. Building LNG terminals in countries dependent on the Russian gas supplies, such as Germany or Italy, would take around 2-5 years. Germany, for example, has announced the construction of three LNG terminals with the capacity to import the equivalent of 33bcm which will represent around 48% of the 70bcm currently purchased to Gazprom. In addition, the EU will have to offer more competitive prices for LNG than the Asians what could result in a price above $1500/100m3. At the same time, Russia exports around 6mbd of oil which is the equivalent of 6% of the global volume. Iran, Venezuela and the Gulf countries could eventually replace some 3mbd of the 6mbd what could keep the oil price above $100/mlrdl for Brent. In addition to it, the Russian Federation is a major supplier of other metals and mineral resources to Europe such as i) 25% aluminum, ii) 5% steel, iii) 13% finished steel, iv) 30% metallurgical coal and v) 60% coal for heating. As for wheat, Russia and Ukraine account for 28% of the global wheat exports. At the same time, Russia and Belarus export around 30% of the overall volume of fertilizers.

On the international stage, the automotive sector is significantly affected by the conflict in Ukraine. For example, Leoni employs 7% of the total workforce in the wiring industry in Ukraine. Renault has 15% of its production capacity in the region, and German manufacturers only 2-3%. In addition, the Russian Federation supplies 39% and 12% of all palladium and platinum, and these elements are used in catalytic converters for car engines. Similarly, Ukraine (a plant in Odessa) produces 50% of the global volume of neon gas, which is used in manufacturing chips. In conclusion, the conflict in Ukraine and the sanctions imposed to Russia and Belarus would lead to higher prices for energy resources, metals and agricultural products for an extended period of time.

The limitation of the exports to the EU and to the rest of the world of certain key products from the countries involved in the conflict will impose the restructuring of the value chain and the economic deceleration. This would mean that crediting to companies involved in these international value chains would be affected. However, the local footprint or the integration of local companies into the production system of resident FEZs is relatively limited which should not dramatically affect the credit landscape in the country.

INFLATION PRESSURE

The CPI rose by 18.52% in February 2022 compared to the previous year. Food prices accelerated by 23.3% f-a-p. The similar indicator increased by 5.5% and 9.3% in the EU and Romania, respectively. It is important to note that the largest increase (by 28.6% f-a-p) was in the vegetables and canned goods category in Moldova. The weighting coefficient for food is 36.3%, which is one of the highest among the emerging countries, with only Thailand (40%), the Philippines (37.7%) and Argentina (36.5%) having a higher weighting among the large emerging countries. For comparison, the share of food in Romania is 33% and in Hungary - 21.6%.

In its Inflation Report issued on February 15, the NBM assumed that the FAO International Food Price Index will fall by around 14% and 11% f-a-p in February and March respectively. Unfortunately, this index was 20.6% in February, and the price of wheat at the end of March was about 75% higher f-a-p on international exchanges. The assumption concerning the quotation for Urals brand oil was $77/barrel, while in reality the Brent brand has reached around $120/barrel at the time of writing this report. All this, in tandem with the 2.6% depreciation of the MDL against the USD since February 23 and the review of the economic growth in the Eurozone from 4% to 3.3% for 2022, will boost inflationary effects. Respectively, the NBM forecast for inflation peaks at 20.5-20.6% in the second and third quarters might be revised upwards by at least 7-8 p.p. with the risk of reaching the level of 30% in some months. Thus, we see that today's realities are different from those of mid-February. This would require the NBM to raise the base rate by at least 6 p.p. if it only pursues the objective of moderating the inflationary pressure or by less than 6 p.p. what will directly affect the capacity of the economic entities to borrow in order to finance investment projects and operational activities.

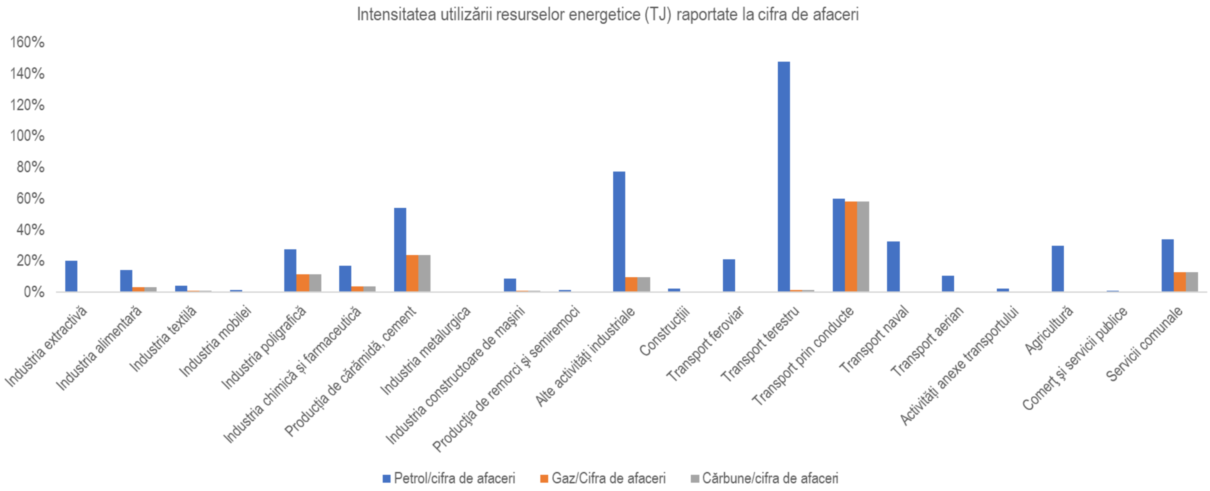
If the scenario that inflation could accelerate to 30% in some months of this year materializes, credits will become more expensive both because the NBM base rate will be higher and because of the risk of depreciation of the MDL on the background of the inflationary pressure. Loans with floating interest rates will be the most affected by inflation. In addition, some fixed-rate credit contracts have clauses that they can be revised if certain macroeconomic parameters deteriorate. *Prima Casa* (First Home) mortgages are vulnerable because they are linked to the weighted average interest rate on new deposits attracted in domestic currency for a duration of 6 to 12 months. At the same time, the risk of MDL depreciation would require the individuals to convert part of their MDL 31.2 billion bank deposits into foreign currency which would put additional pressure on the MDL. The advantage of the banking system at the moment is that the ratio between the amount of balance sheet assets in foreign currency and the amount of balance sheet liabilities in foreign currency is currently balanced and does not generate any mistrust in the banking system in terms of currency.

FOOD AND ENERGY SECURITY

Overall, Moldova's food security is not heavily affected by the war in Ukraine in terms of volume. On the other hand, food prices are subject to a rise pressure given that the two countries involved in the war - Ukraine and Russia - hold 30% of the global wheat production and 18% of the global maize production. There are no clear forecasts for future price developments, but it is enough to point out that even before the war the food price index increased by 30.3% (in 2021). Fertilizer prices have increased by 119% and agricultural raw materials - by 9.6%. Based on Moldova's food balance, the level of self-sufficiency is close to 100% for most food products. Exceptions include: butter (58.5%), poultry (66.6%), tomatoes (40.4%), melons (63.5%), potatoes (68.5%), corn (58.8%), eggs (33%). We have surplus food production of fruits and sunflower for export, but the export of these goods is threatened (apples and plums were traditionally marketed in the Russian Federation), and the exports of sunflower oil use the port of Giurgiulesti with exit to the Black Sea which is dangerous for navigation and involves high transport costs.

Moldova's energy security is affected on two fronts: i. the exorbitant increase in world reference prices for the main energy resources, in particular coal (by 178%), oil (by 84%) and natural gas (by 261%); and ii. the capacity to ensure the supply of the volumes necessary for the functioning of the national economy. In terms of prices, the extent to which the rise in energy price affects the economic sectors differs: energy-intensive sectors (transport, agriculture, cement production) can only be resilient as long as they can pass on the economic pressure to the final consumer. In some cases, this is possible, although with a major impact on the competitiveness and consumption, and in other cases - it is not (if prices are regulated or if the competitive environment does not allow a price rise). In the latter case, higher energy prices can lead to the bankruptcy of entire sectors (one example quoted is the shutdown of fertilizer production in Romania). Following this logic, cement producers and agricultural producers will only be able to cope with the price increases, if the market allows them to increase the prices of their finished products. However, although the transport sector consumes oil at high prices, all the expenditures are passed on to the sectors using transport services. In other words, the consumers of transport services, i.e. the producers and the exporters, are ultimately affected, depending on the volume and tonnage.

Figure 4. The intensity of energy use, by economic sectors



Source: NBS (energy balance, business structure survey)

INVESTMENTS AND ACCESS TO FINANCING

Foreign direct investments (FDI) are likely to suffer. However, the risk of sudden capital outflows is relatively limited due to the anatomy of the capital flows in Moldova. The total stock of foreign direct investments amounted to around $ 4.8 billion at the end of the third quarter of 2021. The finance and insurance sectors attracted 31% of FDI, while trade and manufacturing attracted 26% and 20%, respectively. The geographical distribution of the investments in the form of contributions and cumulative shares shows that the EU holds 86%. However, if the debt instruments are also considered, then Russia is the largest investor in the national economy with a stock of $ 869 million at the end of 2019. Considering the difficulty of converting FDI into cash to be withdrawn from the country, it can be assumed that capital outflows in this segment will be relatively limited in the coming period. However, there is a high probability that Moldova will not be able to attract new FDI flows in the coming years, which would continue to keep the cumulative flow of FDI to the lowest level in Europe, around $ 750 per capita. In the absence of such investments, it will be difficult for the Moldovan economy to raise its potential for economic growth from 3-3.5% to at least 5% during the next decade. Respectively, public investments will have to compensate this investment vacuum.

The portfolio investment was around $ 25 million at the end of the third quarter, which is not a major risk. In terms of cash flow and deposits, the stock of liabilities in the form of commercial bank deposits to non-residents was $ 135 million, which could be the primary source of capital outflows in the next period. In terms of loans for investment projects, they have been anemic for a long time. At the end of February, the balance of loans awarded to resident legal entities was 32.9 billion Lei or 57.8% of the total portfolio. However, it is worth mentioning that the loans granted to SMEs amounted to only 15.9 billion Lei or 27.9% of the portfolio. The high interest rate has always been specified as one of the main reasons for the moderate absorption of credits by SMEs. Considering that inflationary pressure will persist longer than previously expected, the average rate of the volumes of new loans awarded to legal entities and individuals engaged in entrepreneurship could increase from 8.45 and 12.31%, respectively, to 12 and 15%. The excessive liquidity of the banking system amounted to around MDL 3.6 billion at the end of 2021. Moreover, the requirement for mandatory reserves from the funds attracted in Moldovan lei and in convertible currency remains at 28% and 30%, what indicates the existence of maneuver room for liquidity injection. However, converting this liquidity into investment loans remains the main challenge. In addition, the borrowing cost borne by the government is also rising in the above-mentioned context. The State borrowed one-year securities at the rate of 14.85% at the last auction held on March 15, compared to 5.84% in September last year. Respectively, it will also significantly affect the State's ability to finance the budget deficit from the resources attracted on the local market.

WORKFORCE MOBILITY AND BUSINESS MOBILITY

During the first month of the war in Ukraine, 376,800 refugees entered the territory of the Republic of Moldova, of which 342,339 are Ukrainian citizens and 34,461 are foreign nationals. During the reference period, 243,342 Ukrainians and 30,259 citizens of other states left the Republic of Moldova. Respectively, 96,474 Ukrainians and 3,947 citizens of other states remained in the Republic of Moldova. Out of 100,421 refugees, 49,043 are children. 5,071 refugees applied for asylum at the BMA. There is currently no detailed study on the needs of refugees who have settled in the Republic of Moldova. It is known that the majority of the adult population are women. Likewise, most of them are hosted by volunteers from the Republic of Moldova. Placement centers were vital in the early days when the exodus of Ukrainians was a new phenomenon, but along the way they gradually turned into sorting centers, until an admissible solution was identified. From a macroeconomic point of view, the influx of refugees contributes to the increase in aggregate consumption, causing inflationary pressure. This phenomenon is comparable in magnitude to the return of the Moldovans from the diaspora around the Easter holidays. A positive effect that was not anticipated is for HORECA operators, in particular, the capacity of the hotel segment is used to the maximum. However, one cannot rely on this fact as on a paradigm shift – the savings of the refugees from Ukraine are limited and the job demand will be ascending.

The humanitarian crisis caused by the war in Ukraine is accompanied by the relocation of business. In the first month of the war, about 3.5 million Ukrainians left the country for neighboring countries, including the Republic of Moldova. Most abandoned jobs and businesses are not transferable, except for those whose business formula is based exclusively on the human capital and the financial flows. However, a small part of the remaining 100,000 refugees in the Republic of Moldova are business people from the neighboring regions who hope to relaunch their business in the event of a ceasefire. The destination countries unconditionally accept refugees and, in many cases, facilitate the employment of Ukrainians and the relocation of businesses. On a small scale, there is also an exodus of business from the Russian Federation, which manifests itself in two ways: a. Foreign investors who have proactively abandoned investment projects in the Russian Federation or as a result of the sanctions; b. Russian business people who, under the pressure of censorship, reprisals and the closure of communication channels, relocate their businesses to neighboring countries where the Russian language is in circulation (eg, Georgia, Armenia). According to some estimates, the exodus of specialists from the Russian Federation amounts to half a million people.

According to the data provided by the BMA based on the estimates made by diplomatic missions, there are 245 thousand migrant workers from the Republic of Moldova in the countries involved in the war, including 217.4 thousand in the Russian Federation, 25.1 thousand in Ukraine and 2.5 thousand in Belarus. A massive return to their country is a plausible scenario. In the immediate future, their return to the country will condition the increase of aggregate consumption and will exert inflationary pressure. Some of them will look for employment/migration solutions in the west, which is compatible with the trends that existed until the beginning of the war. Some, however, will seek employment, especially in agricultural enterprises. At the same time, the amount of remittances coming from the Moldovans working abroad is under pressure. Although globally their amount is more related to the consumption needs of the relatives in the Republic of Moldova, the loss of income from work (even temporary) can lead to a decrease in the amount delivered. Thus, the annual amount remitted by

Moldovans from the Russian Federation represents about $ 200 million (13% of the total amount of remittances, thus the decrease of remittances by $ 200 million would lead to a proportional decline in GDP).

An unknown variable at the moment is the way how the Moldovan citizens and businesses react to the risks related to the war in the neighboring country. Based on the operative information (to be contrasted with the consolidated financial statements on the banking system issued at the end of March), there is a slight trend of liquidation of balances by individuals (cash extraction and currency conversion). In the three weeks since the start of the war in Ukraine, deposits in the current accounts of individuals have decreased by about 5%, which is about $ 37.2 million. As for the legal entities, they converted the current balances from Moldovan lei into foreign currency, but the total value of their deposits in the banking system did not change significantly. According to sources, the level of liquidity in the banking system is high enough - some banks have resorted to REPO operations with the NBM in order to participate in tenders to purchase government securities, but, overall, the banks have sufficient resources for lending. At the same time, legal entities tend to give up their investment plans as a result of the increased uncertainty.

PRELIMINARY CONCLUSIONS AND STEPS TO FOLLOW

In view of the above, we insist on the preliminary nature of the conclusions: unfortunately, the war in Ukraine is in full swing and we do not have a clear perspective on future events. However, a number of things are very clear at this time: a. Exports to the countries involved in the war are at risk: the producers of apples, medicines, wine, table grapes are looking for immediate solutions; b. The disruption of imports from the countries involved in the war directly impacts on the value chains, in particular, the agricultural production, the furniture industry, the automotive industry, construction; c. Food security is under threat in terms of low self-sufficiency in milk and poultry; d. Rising world prices for energy resources (coal, oil, gas) and fertilizers have led to rising costs for agriculture and transport services; e. The austere monetary policy and the investor’s reluctance deriving from the risks related to the war in the neighboring country generate constraints in terms of access to finance; and f. The demographic mobility fundamentally changes the landscape of labor relations.

Based on these obvious vulnerabilities, we propose a roadmap to the Government containing a series of immediate and short- or medium-term actions, which are meant to increase the resilience of the Moldovan economy in the context of the war in the neighboring country. These actions are grouped into four basic blocks, addressing one or more of the six vulnerabilities identified. More specifically, these are:

A. **Necessary regulations to simplify business**, that do not require budget resources or imply non-essential budget costs;
B. **Targeted budget compensations** for sectors affected by the war in Ukraine;
C. **Investment projects** in areas related to economic resilience and which require additional sources of funding from credit lines provided by international organizations;
D. **Grants programs** for business development.

For the actions in blocks B, C and D, we have developed project sheets that provide technical details on the targeted sectors, the problems identified, the implementation mechanism and the costs associated with the implementation. Finally, we note that the roadmap deriving from these actions has a lively character, being adjustable according to the way in which the events may take place in the future.

ROADMAP TO OVERCOME THE CRISIS

A. REGULATIONS REQUIRED TO SIMPLIFY THE BUSINESS

	Name of the action	Expected effects	Fields of impact						Resp.	Costs	Time frame
			Exports	Imports	Food security	Energy security	Access to funds	Mobility			
1	Simplifying the requirements for the issuance of permits for access to irrigation water from aquatic sources for the high-value agricultural sector, as well as of permits for the construction of slaughterhouses	Food security ensured and capitalization on the export potential by mediating the access to irrigation for high-value crops.	x		x				MAFI EA „Apele Moldovei" Agency NAFS	No costs	Immediately
2	Applying (during the emergency situation) of incasso procedures[3] and suspension of bank accounts no earlier than a month from the date when the fiscal obligation appeared, with preemptive notification of the taxpayer.	Solvency of companies which are particularly affected by the effects of the war in Ukraine.	x	x					MF STS	Insignificant costs, one-month postponement of the collection of tax obligations through incasso procedures	Immediately

[3] The Ministry of Finance expressed some reserve about the change in collection procedures, pointing out the need to strengthen the fiscal discipline as a counter-argument.

3	Ensuring the fluidity of the freight traffic at the border with Romania both by setting specific targets for the waiting-time at the border crossing point, and by requesting an increase in service capacities at the customs points in Romania	Reduction of stop time at Leuseni-Albita and Sculeni-Sculeni border crossing points in connection with the redirection of the freight traffic affected by the war in Ukraine	x	x					MF MoI	No costs	Immediately
4	Ensuring the access to the port of Reni situated on the territory of Ukraine, especially for grain exporters from the Republic of Moldova, by requesting the release of the access by the port authorities of Ukraine	Ensuring the functioning of vital transport corridors for the export of goods, especially cereals	x						MIRD MAFI	No costs	Immediately
5	Cancellation of the procedure for the approval and entry of fertilizers in the State register of fertilizers	There is no similar type of approval and registration procedure in the EU. Given the impossibility to import the already registered fertilizers, it is necessary to urgently substitute the imports with fertilizers from other States. The difficult procedure for approval and entry of the fertilizers	x	x	x				MAFI NAFS	No costs	Immediately

		in the State register causes impediments in this regard									
6	Extension by 30 years of the validity period for the existing fiscal and customs regime of the residents of Free Economic Zones (FEZ)	FEZs host the largest share of the exporting industry and provide tens of thousands of jobs. The risks associated with the war in the region impose a longer investment horizon to stimulate and retain the foreign investors.					x	x	ME MF MFAEI	No costs	Short term
7	Development of "One apple a day for children" national program and similar programs for other categories of beneficiaries	Capitalizing on the failed exports of fruits, especially apples, by stimulating the domestic consumption	x		x				MAFI MER	Within the procurement budget of preschool and educational institutions	Short term
8	Carrying out bilateral procedures for the recognition of phytosanitary regimes and concluding favorable free trade agreements (with Egypt, India, Qatar, other Asian countries)	Capitalizing on the potential for exports of food products, redirecting the exports from the Russian Federation's market to new markets with a growth potential	x						MAFI MFAEI ME	Increase by 20 million Lei of the annual budgetary allocations for the Investment Agency	Medium term

9	Increasing the tariff quotas on the exports of horticultural products to the EU under the free trade agreement (apples - 40 thousand t, plums - 40 thousand t, cherries 5 thousand t, table grapes - 40 thousand t) and negotiating on the cancellation of the *ad valorem* duty when exceeding the existing tariff quotas in the context of the average quantities exported by the Republic of Moldova (the example of Serbia)	Capitalizing on the potential for food exports, redirecting the exports from the Russian Federation market to the European Union market	x						MAFI MFAEI ME	No costs	Short term
10	Developing legal provisions to set an exact time limit for the examination of the file and payment of subsidies to farmers (currently the phrase "reasonable time" is used), and setting up a mechanism for prior approval of the file	Gradual liquidation of the stock of debts in terms of payment of agricultural subsidies (the number of eligible applications exceeds the amount of budgetary allocations)	x		x				MAFI MF	No additional costs	Short term
11	Repealing the Law on the regulation of the repatriation of money, goods and services deriving	Eliminating non-business specific risks resulting	x	x					NBM ME	No costs	Immediately

	from foreign economic transactions	from unjustified regulations									
12	Identifying exceptional solutions for suppliers in the public procurement system and setting appropriate rules for public procurement procedures in force majeure situations or in the event of extraordinary price increase, which would allow the termination or the review of the contract.	The solvency of companies in agri-food sector, construction, suppliers of goods and services is affected when the cost of inputs of raw material fuel increases sharply during contract execution.			x	x	x		MF AAP	No major costs	Short term
13	Accelerating the adoption of the Law on crowdfunding and stimulating crowdfunding projects through the participation of the development partners	Diversifying the access of SMEs to funds					x	x	NCFM ME	No costs to be borne by the State	Short term
14	Authorization of the banks by the NBM to reschedule the due dates of payment and/or the amounts of payments due by June 30, 2022 in loans to legal entities	Avoiding the insolvency of the economic entities affected by the war in Ukraine and reducing the cash gap (a similar measure was introduced during the lockdown)					x		NBM	No costs	Immediately
15	Reducing the reserve base set by the NBM with as	Increasing the amount of liquidities available for					X		NBM	No costs	Short term

	much as the amount of the loans granted for investments with a period exceeding 5 years	long-term crediting (for investments) and decreasing the cost of loans									
16	Amendment of some regulatory provisions on the international postal shipments - the aspects related to the periodic declaration of the exported goods, including the returned items	The lack of specific provisions on the return of items endangers the consumer rights and causes an artificial obstacle to capitalizing on the export potential of the garment industry.	x						MF CS	No budget costs involved. The measure provides for simplified regulations for the entire export process of goods by the means of international postal shipments.	Immediately
17	Exemption of butter imports from the EU from the customs duty for one year	Dairy production is largely dependent on zero-duty butter imports from Ukraine (about 3000 tons). In the absence of these imports, the necessary butter can only be replaced by imports from the west. The exemption from the customs duty is intended to avoid an exaggerated		x	x				MAFI ME MF CS	No budget costs are anticipated, as the customs duties are not collected for the quantity of butter imported from the UA	Short term

		increase in prices for finished dairy products.									
18	Negotiating with the EIB to provide the possibility to borrow the necessary funds for the wine and fruit industry from "Livada Moldovei" credit line	Covering the shortage of working capital needed for financing the agricultural works (about EUR 30 million), as well as for purchasing grapes for winemaking.	x						MAFI MF	No costs	Short term
19	Suspending the mandatory contribution to the Vine and Wine Fund by private sector for 2022.	Reducing the immediate fiscal pressure of about 24 million Lei on winegrowers who face the need to reorient the exports affected by the war in Ukraine.	x				x		MAFI MF	22 million Lei. The State's contribution to FVV amounting to 84 million Lei was not honored. The NOVW budget of 44 million Lei will be covered from the account of the previous contributions and of the State quota to FVW.	Short term
20	Reimbursement of the VAT accrued on the account of the economic entities who made exports to Ukraine, Belarus, the Russian	Temporary support by the means of liquidities, by reimbursing the amount of the VAT accrued on the account of the exporters	x				x		MF MAFI	No budgetary impact over time. The measure represents an	Immediately

	Federation between February and May 2021, in the amount of the product between the VAT rate and the value of the exports made during that period (the amount of VAT accrued on the account will be decreased by the refunded VAT amount).[4]	affected by the war in Ukraine. Those liquidities are necessary in order to enable the economic entities to bear the costs of storage of the products to be exported.								allocation of budgetary resources in advance by refunding the VAT before exporting.	
21	Increasing the threshold for VAT taxpayer registration from 1.2 million Lei to 2 million Lei	Developing the SMEs and encouraging the documentation of the commercial transactions. About 3000 companies are within this threshold.					x	x	MF	Insignificant impact. The VAT-related revenue amounted to 188 million Lei in 2021, but, in practice, the companies registered as VAT payers tend to keep their status.	Medium term
22	Modifying the time limit for VAT calculation, reporting, and payment by the economic entities who make deliveries of up to 2 million Lei (previous year) -	Reducing the administrative burden for SMEs: the number of completed declarations and the number of payments made will					x	x	MF	A minimum cost of 70 million Lei in the first year of implementation (only the	Short term

[4] The Ministry of Finance expressed reserves about this procedure, as it might become an excessive burden for tax administration.

	the quarter instead of the calendar month.	decrease from 150 thousand to only 50 thousand Lei, without affecting the amount of revenues								frequency of the receipts changes)	
23	Establishing an accelerated amortization for tax purposes for the machinery and equipment, deduction of 50% of the value of the fixed asset in the first year	Stimulation in machinery and equipment. The largest investments in fixed assets are made in the construction sector (17.1%), trade, maintenance, and repair of the means of transport (12.2%), manufacturing (9.5%), transport and storage (8.5%). %), agriculture, forestry, and fishing (7.7%), etc.	x				x		MF ME	During the first year of implementation, 281 million Lei. The respective budgetary resources will be additionally collected in the coming years, when the amount of the amortization expenses will be lower and, respectively, the fiscal profit will be higher.	Medium term
24	Increasing the non-taxable and deductible thresholds for vouchers, food, and organized transport, in line with the developments of food prices and transport tariffs/increase of the	In terms of food and organized transport, the main beneficiaries are the employees of large companies, especially those registered in FEZs (the last update was in					x	x	MF	Insignificant costs. The deductible value per employee will increase by 24 Lei (for organized food);	Immediately

	mileage. (Meal vouchers - 73 Lei, organized food 69 Lei, organized transport 70 Lei)	2018). Such vouchers are used by employees of all interested companies (last update was in 2020)								35 Lei (for organized transport); 18 Lei (for meal vouchers)	
25	Allowing the deduction for tax purposes of the expenses related to the bad debts arising out from the external relations with Ukraine, the Russian Federation and Belarus[5]	Approximating the taxable object with the income tax with the accounting profit (the real profit) obtained by the companies. As a result of the war, the affected companies have double losses coming from the unrecovered debts and from the fiscal consequences when such expenses are not allowed for deduction.	X						MF	Insignificant costs	Immediately
26	Setting up a simplified tax regime (minimizing the accountability and tax reporting requirements) for micro-enterprises[6]	Developing the entrepreneurial spirit, self-employment, minimizing the efforts of the economic entities in the process of interaction with the public authorities (NBS, STS) in terms of						x	MF ME	No costs. The increase over time of the tax base as a result of the transition to the official sector of the economy will	Short term

[5] The Ministry of Finance has expressed reserves with regard to the application of this rule, given the risks of tax evasion under false pretenses
[6] For the time being, the Ministry of Finance expressed reserves about the appropriateness of setting up a new simplified regime, given the multitude of the current special regimes.

		calculation, reporting and payment of taxes and fees								bring revenues to the budget	
27	Reducing the time frame for VAT refund to 7 working days for companies which meet the criteria set by the Government[7]	Reducing the administrative burden and the efforts of the companies when interacting with the public authorities. Increasing the degree of fiscal compliance						x	MF STS	No costs	Immediately
28	Gradual refund to the accounts of the accrued VAT amounts, in the amount of payroll taxes paid to the budget	Increasing the liquidities in sectors with VAT accruals, especially in agriculture and energy sector					x		MF	350 Lei from the debt balance accumulated on the VAT account for refund	Medium term
29	Implementing regulatory and administrative solutions in order to allow the foreigners to work as remote employees and entrepreneurs (without physical presence) in Moldova.	Attracting and retaining in Moldova the investments and the talents from other countries	x				x	x	ME PSA	No costs	Short term

[7]The VAT refund to the concerned companies is *de facto* done within 3-4 days. At the same time, the Ministry of Finance has some reserves about *de jure* reduction of this time frame by stipulating it in the legislation.

B. BUDGETARY COMPENSATIONS TARGETED AT THE AFFECTED SECTORS

	Name of the action	Expected effects	Fields of impact						Resp.	Costs	Time frame
			Exports	Imports	Food security	Energy security	Access to funds	Mobility			
1	Compensation in the proportion of 2 lei / kg of apples exported (alternative logistics is much more expensive) and delivered for processing based on export invoices and invoices issued by processing plants	Encouraging the processing by food industry of 80 thousand tons of apples which are kept in cold stores and avoiding the insolvency of apple producers caused by the fact that prices of apples purchased for processing (1.50 Lei/kg) are well below the production (2.50 Lei/kg) and storage (1.20 Lei/kg) costs	x		x		x		MAFI MF AIPA	160 million Lei for compensations of 2 lei/kg for a volume of 80 thousand tons of apples delivered for processing by food industry and for export	Immediate effects in the current year
2	Amortization of the impact of the rising costs for energy resources by the means of compensations of 30% of the excise duties on diesel used in primary agriculture	Increasing the competitiveness of the agricultural production aiming to ensure domestic consumption and increase the export potential	x		x	x			MAFI MF AIPA	129 million Lei for the total consumption of 144 thousand tons of diesel, including the amount of 30% of the compensation	Immediate effects in the current year

										and the amount of the excise duties of 2980 Lei/t	
3	50% VAT compensation for fertilizers (macro and microelements) used in primary agriculture for the production of agricultural raw materials	Maintaining the productivity in the agricultural sector under the conditions of the rising costs of the fertilizers used in primary agriculture and avoiding the losses in the 2022 harvest	x		x				MAFI MF AIPA	384 million Lei for 50% VAT compensation (10% of the value of fertilizer imports)	Immediate effects in the current year
4	Granting compensations of 2.17 Lei per liter of milk produced in 2022 in the context of the increase in feed costs, based on the quantities sold for processing by the food industry	Encouraging the additional production of 75 thousand tons of milk and dairy products to partially cover the deficit of 150 thousand tons of milk caused by the interruption of the imports from Ukraine, Belarus and the Russian Federation			x				MAFI MF AIPA	861 million Lei to compensate the difference in feed costs amounting to 2.17 Lei for 387 thousand tons of milk sold to processing units	Immediate effects in the current year

C. INVESTMENT PROJECTS FUNDED FROM CREDIT LINES

	Description of the action	Expected effects	Impact areas						Owner	Costs	Time frame
			Exports	Imports	Food security	Energy security	Access to funds	Mobility			
1	Encourage the additional investments in post-harvesting and processing infrastructure in the amount of €170 million and adjust the (advance) funding mechanism through the National Fund for the FNDAMR, reduce the rate on credit lines and increase the guarantee fund	Development of post-harvesting and processing infrastructure to ensure the reorientation of exports of horticultural and wine products from the eastern markets to new markets (including the EU), where the emphasis is on the creation of sorting / calibration houses and competitive packaging of agri-food products. Development of value chains by diversifying the processing of horticultural production (modernization of dryers, deep freezing, juice industry produced by cold squeezing and diversification of	x				x		MAFI	170 million EUR, including for investments in post-harvest infrastructure for fresh horticultural products (75 million); infrastructure for processing wine grapes (70 million); diversification of the processing of horticultural products (25 million)	Mid-term (2022-2025)

		processed products: pectin, etc.)									
2	Encourage the additional investments in the renovation of vineyards worth €122 million and cancel the compulsory contribution of the private sector to the FVV for the year 2022	Capitalizing on the potential for export of quality wines with a focus on new markets	x				x		MAFI	120 million EUR for the reorientation of wine exports to alternative markets, including: investments in planting of 4000 ha of new vineyards (80 million); investments in vine support infrastructure (20 million); investments in uprooting of 1000 ha of old vineyards (20 million)	Mid-term (2022-2025)
3	Substitute the imports of seeds and planting material for the horticultural sector with investments in the development of domestic	Food security of the Republic of Moldova, promoting high value agriculture based on adapted seeds and planting material		x	x		x		MAFI	50 million EUR for the establishment of collection nurseries, development of seed farms and	Mid-term (2022-2025)

	production of adapted and resistant seed material									seed processing infrastructure	
4	Encourage investments of €80 million in the dairy sector to cover the milk shortage caused by the import disruption	Increase the cattle population by 10 thousand heads to ensure an additional production of 75 thousand tons of milk and partially cover the milk shortage caused by the disruption of the imports from Ukraine, Belarus and the Russian Federation			x		x		MAFI	80 million EUR for investments in increasing the cattle population by 10 thousand heads	Mid-term (2022-2025)
5	Facilitate the access to funding worth €10.5 million for the development of slaughterhouse infrastructure in line with the EU standards	Develop an additional slaughter capacity for 16.8 million poultry units per year, enabling thus the production of 23 thousand tons of poultry meat to substitute the imports			x		x		MAFI	10.5 million EUR for the construction of at least 3 new slaughterhouses complying with the EU standards	Mid-term (2022-2025)
6	Make investments in the construction of a multi-modular hub for the processing and storage of humanitarian aid at Marculesti airport, with their subsequent transport to	Development of logistical capacities for the management, storage and delivery of the humanitarian aid, with the possibility of their subsequent conversion on	x	x				x	MIRD MMPS MA	11 million EUR for the construction of the hub and the upgrade of the airport	Short-term

	distribution hubs in war-affected areas	the basis of public-private partnerships									
7	Implementation of the Fund for the Development and Acceleration of Sustainable Economy (e.g. FDAED)	An immediate impact will derive from keeping the solvency of the viable economic entities affected by the disruption of foreign trade caused by the war in Ukraine by enabling them to identify alternative financing solutions	x	x			x	x	ME ODIMM	600 million EUR for the credit line	Mid-term (2022-2025)
8	Stimulating the establishment in Moldova of alternative investment funds with private equity, with venture capital and / or mezzanine type to ensure the growth capital of SMEs for the next 5-7 years.	Enhancing the access to alternative sources of funding for start-ups reaching a certain development stage					x		ME ODIMM	30 million EUR for a portfolio that will ensure the fund's sustainability	Long-term (2022-2030)
9	Development of innovation and technological parks, as part of the network of industrial parks	Capitalizing on the human potential of the creative industries, research and innovation, etc.					x	x	ME MC PSA	50 million EUR for the establishment of 4 innovation and technological parks	Mid-term (2022-2025)

10	Development of multifunctional industrial platforms and of a business incubator network	Enhancing the access to modern infrastructure to facilitate business					x	x	ME ODIMM	50 million EUR for the construction of multifunctional industrial platforms and the expansion of business incubators	Mid-term (2022-2025)
11	Providing with equipment and expanding the laboratories for the certification of the Moldovan products	Building the capacity of the network of conformity assessment organizations to enable the exports of the Moldovan products	x				x		ME ODIMM MAFI NAFS	30 million EUR for equipping and expanding the laboratories	Mid-term (2022-2025)
12	Capitalization of the Credit Guarantee Fund (CGF)	Ensuring the financial sustainability of the CGF in the context of providing additional guarantees for loans granted by the FDAED					x		ME ODIMM	50 million EUR for the CGF capitalization	Short-term
13	Reorganize the "Moldovan Railways" State Enterprise and repair the railway tracks	Ensure the solvency of the CFM given the need to modernize the rail transport network, reduce the transport costs borne by the economic entities			x	x			MIRD	16 million EUR for CFM reorganization and for the repair of the railway tracks	Short-term

		involved in international trade.									

D. GRANT PROGRAMS FOR BUSINESS DEVELOPMENT

	Name of the action	Expected effects	Areas of impact						Resp.	Costs	Time frame
			Export	Import	Food security	Energy security	Access to funds	Mobility			
1	Grant program for digital business transformation	Increase labor productivity in companies implementing advanced technological solutions, encourage the demand for ICT solutions that may be provided by companies in this field	x				x	x	ME ODIMM	40 million EUR for grants awarded to SMEs	Medium-term (2022-2025)
2	Grant program for the development of local suppliers	Develop the industries connected to those implemented in FEZ, technologize the production processes, increase the productivity					x		ME ODIMM	40 million EUR for grants awarded to SMEs	Medium-term (2022-2025)
3	Program to support innovation and technological start-ups	Encourage innovation, entrepreneurial initiative among SMEs focused on innovative technologies, sustainable business solutions					x	x	ME ODIMM	30 million EUR for grants awarded to SMEs	Medium-term (2022-2025)

4	Company retrofitting and energy efficiency program	Reduce the cost pressure of electric energy consumption and increase business sustainability				x	x		ME ODIMM	60 million EUR for grants awarded to production companies	Medium-term (2022-2025)
5	Business growth and internationalization program	Empower the domestic companies to penetrate new foreign markets	x				x		ME ODIMM	40 million EUR for grants awarded to SMEs	Medium-term (2022-2025)
6	Program to support small producers	Integrate small producers into the formal trade chains					x		ME ODIMM	30 million EUR for grants awarded to SMEs	Medium-term (2022-2025)
7	Greening of business program	Green the production processes of companies, reduce the impact on the environment				x	x		ME ODIMM	40 million EUR for grants awarded to SMEs	Medium-term (2022-2025)
8	Program for rural tourism development	Enhance the accommodation and catering capacities of tourism business					x		ME ODIMM	5 million EUR for grants awarded to SMEs	Medium-term (2022-2025)

PROJECT SHEETS

PROJECT SHEET #B1

Name of the action:	**Compensation in the proportion of 2 lei / kg of apples exported and delivered for processing based on invoices and invoices issued by processing plants**
Responsible authority:	MAFI, AIPA

PROBLEM

Target sectors:	Agriculture: apple producers
Target problems:	Moldovan apple exports were traditionally shipped to the Russian Federation (55% of the total production), the rest being directed to the domestic consumption and processing. In 2021, 278 thousand tons of apples were exported at a production price of about 5-6 lei per kilogram. As a result of the war in Ukraine, the traditional transport corridors have become inaccessible, and detours through Romania, Hungary, Poland and Belarus are not an alternative for two reasons: a. Transport costs have become at least double ($ 7000 the cost of a truck); and b. Transport is blocked in Poland because of the Ukrainian refugee crisis. Respectively, as of February 25, the cold stores contained production stocks in a volume of 120 thousand tons, out of which a certain amount was reoriented to Romania (10 thousand tons), some will be delivered to the Russian Federation (20 thousand tons), a small part - to the Middle East (2 thousand tons) and another part will be consumed locally (10-15 thousand tons). In the absence of other alternatives, the excess of production will be sold for processing at the price of 1.45-1.50 Lei/kg. At the same time, the cost of apple production is 2.20-2.50 Lei/kg to which shall be added the cold storage costs of 1.20 Lei/kg. The problems of the sector are exacerbated by the increase in fuel prices and transport costs, as well as in the cost of fertilizers. It should be noted that apple is a perennial crop, so abandoning orchards and reorienting the production is simply not a viable option.

INTERVENTION

Summary	To mitigate the dramatic impact on apples producers, it is proposed to allocate compensation of 2 lei / kg for exported apples (more expensive alternative logistics and more difficult penetration in new markets) and delivered for processing. This would allow producers to cover the costs of additional exports, production and ensure the distribution of a volume of about 80 thousand tons of apples from cold stores.
Implementation mechanism	AIPA will allocate to the apple producers compensations for 1 kg of apples exported and delivered for processing in the amount of 2 lei / kg of fractured apple at the factory. These compensations will be valid only in 2022, taking into account the fact that the war in Ukraine is a force majeure event that was not anticipated by farmers (it has made alternative channels and export diversification more expensive). In the future, it is anticipated that investments in post-harvest and processing infrastructure, along with export reorientation efforts, will generate sustainable solutions for apple growers.

COSTS

Investment projects	No investment programs.
Budget costs	160 million Lei (EUR 8 million) for 80 tons of apples, i.e. a 2 lei/kg compensation
Administration costs:	Within the planned budget lines.

PROJECT SHEET #B2

Name of the action:	**Amortization of the impact of the rising costs for energy resources by compensating 30% of excise duties on diesel used in primary agriculture**
Responsible authority:	MAFI, AIPA

PROBLEM

Target sectors:	Agriculture: plant and animal raw material producers
Target problems:	Agriculture is one of the sectors of the national economy that has been directly affected by the rise in fuel prices. According to the energy balance, agriculture consumes 5383 TJ of energy, mainly diesel (90%). Respectively, this is not about the increase in the transportation costs, but directly about the rise of the cost of the production factors. In 2021, the world price of oil rose by 84.5%, what had a negative impact on the unit cost of agri-food products. As a result, the price hike may cause some disruption to the country's food security. This problem is exacerbated by the fact that many agricultural producers have not recovered from the effects of the 2020 drought. The harsh reality for most agricultural producers is that the beginning of 2022 agricultural year is marked by the lack of funds to ensure the supply of production inputs and the operational management of agricultural fields.

INTERVENTION

Summary	To ease the burden on the agricultural households, a partial compensation is proposed aimed to cover the fuel excise costs (of 50%) used in primary agriculture (the excise cost for 1 ton of diesel in 2022 is 2980 MDL/ton).
Implementation mechanism	The partial compensation for excise duty on diesel used in primary agriculture is practiced in many European countries. In the Republic of Moldova, a diesel consumption of about 144 thousand tons is estimated for the exploitation of arable land with the area of 1.6 million hectares. Respectively, the monetary value of the compensations of 30% of the excise value of 2980 Lei/t amounts to about 128.64 million Lei. It is proposed to allocate the compensations through AIPA, based on the billed cost of diesel. A lasting solution can be identified by improving the regulatory framework for the petroleum products market. In the past, the wholesale diesel trade offered prices that were by about 2-2.50 Lei lower than the prices at filling stations, which is logical considering that the wholesale traders do not bear expenses for the maintenance of gas stations. It is therefore necessary to improve the Law no. 461-XV/2001 on the Storage and Sale of Petroleum Products on the Internal Market.

COSTS

Investment projects	No investment projects are planned as part of this measure

Budget costs	129 million Lei (6.5 million EUR) considering a total consumption of 144 thousand tons of diesel, the amount of 30% of the compensation and the amount of 2980 Lei/t of excise duties
Administration costs:	Within the limit of the current expenditures

PROJECT SHEET #B3

Name of the action:	**50% VAT compensations for fertilizers (macro and microelements) used in primary agriculture for the production of agricultural goods which are critical for food security**
Responsible authority:	MAFI, AIPA, STS

PROBLEM

Target sectors:	Agriculture: farmers producing vegetal and animal raw material (forage production)
Target problems:	The increase in world prices for fertilizers by 190% throughout the year 2021 significantly impacted on Moldova's food security. Group I and II cereals are especially affected as the fertilizers' share in their production cost is between 25 and 40%. The farmers lack working capital, therefore the loss in cereals' yield as a result of the thrifty use of fertilizers will be around 3439 tons in 2022. The problem is also exacerbated by the disruptions in fertilizer import logistics, because of the war in Ukraine. The major source of supply of fertilizers was usually the Russian Federation, which restricted the exports of this category of goods. Imports from other fertilizer-producing countries is challenging for immediate reaction and may be delayed by protectionism regulations. By today, there are only 65,000 tons of fertilizers in the Republic of Moldova out of the 250.5 thousand tons needed for the upcoming agricultural season.

INTERVENTION

Summary	To mitigate the food security risks and ease the burden on farmers, it is proposed to compensate 50% of the VAT applied for fertilizers (macro and microelements) used in the primary agriculture for the vegetal raw material and forage production. Also, any additional in-kind donations of fertilizers by partners may be sought for, along with the simplification of the import regulations and logistics.
Implementation mechanism	50% VAT compensation of the price of fertilizers purchased by agricultural producers. The value cost of the proposed action is 385 million Lei (10% of the value of imports). Also, in order to ensure the supply of fertilizers for the period April-May, the intervention of the Material Reserves Agency, in partnership with the main traders, is necessary in order to purchase the required stocks from fertilizer-producing countries, such as Turkey, Uzbekistan, Kazakhstan, Azerbaidjan

COSTS

Investment projects	No investment projects are required for this measure
Budget costs	384 million Lei (19,2 million EUR)
Administration costs:	Within the current expenditures.

PROJECT SHEET #B4

Name of the action:	**Awarding compensations in the amount of 2.17 Lei per liter of milk produced in 2022 given the increase in feed costs, based on the volumes sold for processing to food industry.**
Responsible authority:	MAFI, AIPA

PROBLEM

Target sectors:	Agriculture: Livestock sector and food industry, farms, households and processing units
Target problems:	In terms of food security, the level of self-sufficiency in milk and butter is low. The imports cover 33% of milk consumption and 41% of butter consumption. Because of the war in Ukraine, the physical imports of milk and butter are compromised. The deficit of 150,000 tons of milk could be covered by domestic production provided that the cattle herd is increased and milk productivity is enhanced. The domestic production of 322 thousand tons of milk is constrained by the low productivity of the sector caused by the high price of production factors (feed, energy resources), as well as the low investments in livestock development. As a result of increasing the productivity, approximately 50% of the missed imports could be covered, and the rest of approximately 50% would be covered by creating new production capacities. Currently, the register of animals includes 15 thousand heads of animals in 236 authorized farms and about 55 thousand heads at households.

INTERVENTOIN

Summary	Compensating for the difference in feed cost of 2.17 lei per liter of milk, aiming to stimulate the increase of the sector's productivity by about 23%, which would be an increase by about 75 thousand tons (more than half of the import deficit).
Implementation mechanism	The allocation of compensations will be managed by AIPA, based on the invoices issued by the authorized diary producers and processors, in compliance with the food safety regulations. As a result of this compensation measure, milk productivity will be increased, whilst the quality standards required by the processors will be met. It is estimated that approximately 397 thousand tons of milk may be benefiting the compensation (322 thousand tons regularly produced and an additional 75 thousand tons produced as a result of the 23% increase in productivity).

COSTS

Investment projects	No investment projects are required for this measure
Budget costs	861 million Lei (43 million EUR) to compensate for the difference in feed cost of 2.17 lei for 387 tons of milk sold to processing units.
Administration costs:	Within the planned budget lines.

Name of the action:	**Encouraging investments in post-harvest and processing infrastructure in the amount of € 100 million by adjusting the financing mechanism (pre-financing) through the FNDAMR, reducing the rate on credit lines and increasing the guarantee fund.**
Responsible authority:	MAFI, AIPA

PROBLEM

Target sectors:	Agriculture and food industry: horticultural sector (producers, consolidators); wine sector (technical grape processors); processing industry (canneries, dryers, juice factories)
Target problems:	The horticultural sector in the Republic of Moldova needs to identify alternative solutions for the sale of goods worth about $ 123.3 million previously exported to the Russian Federation, Belarus and Ukraine. In particular, it includes apples (exports to the Russian Federation worth $ 85 million in 2021), table grapes (exports to all 3 countries worth $ 22 million), other fruits (exports to the Russian Federation and Belarus worth $ 16.3 million), fruit juice (exports to the Russian Federation worth $ 8.7). Because of the war in Ukraine, the traditional transport corridors are no longer accessible and bypass routes entail exorbitant transport costs, what puts at risk the sale of 2022 harvest on these markets. In practical terms, there are two viable solutions for selling the 2022 harvest: 1. Reorienting the exports to new markets; 2. Increasing the amount of products processed internally by the food industry. Both solutions require immediate costs which cannot be fully covered by the means of the existing funding mechanisms. Respectively, there is need for financial resources allocated under favorable conditions for investments in post-harvest and processing infrastructure in order to meet the specific, more rigorous requirements of the alternative export markets (quality standards, sorting and packaging, food safety). A particular emphasis shall be put on apple and vegetables processing sector aiming at a diversified processing (in particular, cold press juice units, chip dryers, pectin extractors) and at reducing the shock in the sector (which was previously focused only on apple processing for concentrated juice production (which has the lowest added value)).

INTERVENTION

Summary of the proposed intervention	A complex set of measures shall be taken in order to solve this problem: 1. Increase by 170 million EUR the investments in post-harvest and processing infrastructure component of the FNDAMR; 2. Amend the FNDAMR regulations to allow pre-financing of investment projects in post-harvest and processing infrastructure; 3. Improve the credit guarantee mechanism for investment projects in post-harvest and processing infrastructure by increasing the Guarantee Fund managed by ODIMM and simultaneous increase of the guarantee ceilings; 4. Adjust the mechanism for setting the interest rate for investment loans from direct credits and *reflow* through the credit lines of international organizations (IFAD, RISP, CAP, Livada Moldovei, etc.) at 7.5% annual interest on loans accessed by entrepreneurs (which was accepted by the MF and the Directorate of the credit line on January 12, 2022), so that they are more attractive compared to bank

	crediting from own sources; 5. Reduce or cancel the requirement for own contribution to investments made from investment loans;
Implementation mechanism	MAFI, the credit line directorate, the implementation units will adjust the financing mechanisms from the credit lines in order to increase the attractiveness and facilitate the access of the final beneficiaries. The regulations for the use of FNSAMR will be supplemented with provisions meant to allow pre-financing of the investment projects in post-harvest and processing infrastructure. Pre-financing shall be competition-based, for a well-defined period, have a well-grounded feasibility and impact indicators. This will provide clear prospects and will promote the development of post-harvest and processing infrastructure, decisively contributing to the increase of the competitiveness of the high value agri-food sector. The mechanism for financing and carrying out the investment project can be implemented through the escrow account, which will ensure the financial security. In the context of the inflationary pressure caused by the rise of food and fuel prices, the use of the refinancing rate of the National Bank of Moldova (NBM) as a reference rate is not appropriate. This will automatically lead to the increase in the cost of crediting, further boosting the food prices. It is therefore proposed to adjust the interest rates on the investment loans from the international credit lines (IFAD, RISP, PAC, Livada Moldovei, etc.) by excluding the indicator based on the NBM refinancing rate or on inflation from the calculation formula and determining the interest rate starting from the average annual rates for the demand deposits in the financial-banking system of the Republic of Moldova. This will have a decisive contribution to cheapening the investment credits and facilitating the much-needed investments in agri-food sector. It is also proposed to increase the Guarantee Fund managed by the ODIMM in order to provide guarantees for a larger number of beneficiaries, while increasing the ceilings to 50% of the value of the investment projects, as follows: exporters - up to 15 million Lei; producers and cooperatives - up to 10 million Lei and startups - up to 2 million Lei (70% of the value of the pledge).

COSTS

Investment projects	The amount of the investments needed during the period 2022-2025 to reorient the horticultural exports towards alternative markets is estimated at 170 million EUR, including: - 75 million EUR for investments in post-harvest infrastructure for fresh horticultural products; - 70 million EUR for investments in technical grape processing infrastructure; - 25 million EUR for investments in diversifying the processing of horticultural products.
Budget costs	No budgetary allocations are expected.
Administration costs:	Within the current expenditures.

Name of the action:	**Encouraging additional investments worth € 122 million in the renovation of vineyards and cancelling the requirement for mandatory private sector contribution to the Vine and Wine Fund (VWF) for 2022**
Responsible authority:	MAFI, AIPA, ONVV

PROBLEM

Target sectors:	Agriculture: the wine sector
Target problems:	Despite the efforts put to reorient the wine exports towards new markets, the sector still remains much dependent on the markets of the Russian Federation, Ukraine and Belarus. In 2021, wine worth $ 39 million was exported to these countries, which are currently compromised by the war in Ukraine. The reorientation of the exports to other markets cannot be done mechanically, because the quality standards, the particularities of the consumption differ from country to country. The underlying problem faced by wine producers is that, in addition to the quality varieties that fuel the exports to the prospective markets, technical varieties that can only be used for wine to be sold in bulk are also produced each year. This explains the dependence on the cheap eastern markets which consume 46% of exports. The demand for exports to the western markets increases yearly by about 21%, but this implies a capacity problem: to capitalize on the export potential, investments in new vine plantations are needed, along with cutting down the plantations with hybrid, non-efficient or obsolete varieties. The problem is exacerbated by the fact that 50% of technical grapes are grown by small farmers who cannot make this transformation on their own.

INTERVENTION

Summary of the proposed intervention	In essence, the proposed intervention is meant to encourage the investments in planting of 4000 ha of new vineyards, the support infrastructure for the technical grapes (espaliers, trellis, irrigation) and cutting down of 1000 ha of old vineyards. This requires additional credit lines for the FNDAMR amounting to 122 million EUR and the review of credit conditions (pre-financing, adjustment of the way how the interest rate is established, cancelling the requirement for own contributions). At the same time, an action with an immediate impact would be cancelling the mandatory private sector contribution to the Vine and Wine Fund (VWF) for 2022.
Implementation mechanism	MAFI, the credit line directorate, the implementation units will adjust the funding mechanisms from the credit lines to enhance the attractiveness and facilitate the access for final beneficiaries.

COSTS

Investments projects	The amount of the investments needed during the period 2022-2025 to reorient the wine exports towards the alternative markets is estimated at 120 million EUR, including: - 80 million EUR for investments in planting of 4000 ha of new vineyards with technical varieties;

	- 20 million EUR for investments in technical grape support infrastructure (espaliers, trellis, irrigation); - 2 million EUR for investments in cutting down of 1000 ha of old vineyards located on slopes which are favorable to technical grape varieties.
Budget costs	Cancellation of the mandatory private sector contribution in the amount of 44 million Lei (2.2 million EUR) to VWF for 2022
Administration costs	There is need for developing additional AIPA capability through increasing the staff and training them on file analysis and monitoring. ONVV needs increased support to provide technical assistance for selecting the land, the varieties, the planting schemes and the Institute for Research in Horticulture and Food Production (IȘHPTA) needs support for the development of virus-tested planting material.

Name of the action:	**Replacing the imports of seeds and planting material for the vegetal sector by investments in the development of domestic production of adapted and climate-resilient seed material**
Responsible authority:	MAFI, AIPA, NAFS, State Inspectorate for Seeds

PROBLEM

Target sectors:	Agriculture: agricultural producers of seeds and seed material, fruit/vine nurseries
Target problems:	Local agriculture traditionally covers a considerable part of the need for seeds and planting material on its own and makes exports to countries of the region. At present, there is a stagnation in the production of seed and planting material, which requires investments to create and modernize the infrastructure needed for the domestic production of a part of the necessary amount of seeds and planting material and for exports.

INTERVENTION

Summary of the proposed intervention	Facilitating the development of the agricultural sector specialized in the production of seeds and planting material adapted and resistant to climate conditions.
Implementation mechanism	The regulations for the use of FNSAMR shall be supplemented with provisions that allow pre-financing of investment projects for starting, modernizing and developing businesses focused on the production and processing of horticultural seed and planting material. Such a financing line dedicated to the seed/planting sector will promote the development and replacement of the massive imports of seeds and planting material, reduce the seed costs, create value-added businesses, increase the climate-resilience of agricultural crops and facilitate the increase of competitiveness of the agri-food sector. An important role in facilitating the internal development of the seed material shall be played by science and research, therefore national research and technology transfer projects shall be facilitated in the field of selection, genetics and development of the local seed sector. Complex approaches, which include a research and innovation component, are preferred.

COSTS

Investment projects	This action implies investment projects meant to set up collection nurseries for grafts and rootstocks, to develop seed farms and seed processing infrastructure in the amount of 50 million EUR during the period 2022-2025.
Budget costs	No budgetary allocations are expected.
Administration costs:	Within the current expenditures.

Name of the action:	**Encourage investments worth € 80 million in the dairy production sector aimed to cover the milk deficit caused by the interruption of the imports**
Responsible authority:	MAFI

PROBLEM

Target sectors:	Agriculture: Livestock sector and food industry (raw milk production, animal products), farms, households, processing units
Target problems:	From the food safety point of view, the level of self-supply with milk and butter is insufficient. Imports cover 33% of milk consumption and 41% of butter consumption. Because of the war in Ukraine, the physical imports of milk and butter are compromised. The deficit represents 150 thousand tons of milk that could be covered by the domestic production, provided that the cattle livestock is increased and milk productivity is enhanced. The domestic production of 322 thousand tons of milk is restrained by the low productivity of the sector caused by the high price of production factors (animal feed, energy resources), as well as by the low investments in animal livestock development. As a result of enhancing the productivity, about 50% of the missed imports could be covered and the rest of approximately 50% could be covered by creating new production capacities. Currently, the animal register comprises 15 thousand heads of animals in 236 authorized farms and about 55 thousand heads in households.

INTERVENTION

Summary of the proposed intervention	The proposed intervention consists in granting preferential loans with partially covered bank interest in order to encourage the increase of investments. A maximum milk quantity of 7.5 tons is annually obtained from a bovine. Respectively, to counterbalance the 75 thousand tons of imported milk, investments are needed to increase the livestock by 10 thousand heads. The farm investments per bovine amount to about 8,000 EUR. Thus, investments of 80 million EUR are needed for 10 thousand bovines, which will be capitalized on within 3 years.
Implementation mechanism	The State will set up a fund for the development of production capacities of EUR 80 million for a period of up to 3 years.

COSTS

Investment projects	A credit line of 80 million EUR for favorable financing of investment projects.
Budget costs	No budgetary costs are expected.
Administration costs:	Minimum administrative expenditures

Name of the action:	**Facilitating the access to € 10.5 million as funding for the development of EU standards-compliant slaughterhouse infrastructure**
Responsible authority:	MAFI

PROBLEM

Target sectors:	Agriculture: livestock and food industry (chicken and egg production)
Target problems:	The food security of the Republic of Moldova is threatened because of the low level of self-sufficiency in poultry meat. Out of the annual consumption of 70 thousand tons of poultry meat, 45 thousand tons are locally produced and other 25 thousand tons are imported from Ukraine and Belarus. As these imports are disrupted by the war, there is a potential to replace them with domestic production. This could be done as a result of capacity development and optimization of the cost of services provided by slaughterhouses. There is currently only one slaughterhouse that meets the EU quality standards.

INTERVENTION

Summary of the proposed intervention	Development of additional slaughtering capacity, in line with the EU requirements, with the capacity of over 17 million chickens per year, thus covering the amount of 25,000 tons of poultry meat to substitute the imports and develop the capacity for exports to the EU. To this end, there is need for establishing at least 3 slaughterhouses, each of them requiring investments of about 3.5 million EUR.
Implementation mechanism	Facilitating the access to long-term financing on favorable terms for slaughterhouse infrastructure - 3 slaughterhouses with the capacity of over 17 million chickens per year.

COSTS

Investment projects	A credit line of 10.5 million EUR for favorable financing of investment projects.
Budget costs	No budgetary allocations are expected.
Administration costs:	Within the current expenditures.

Name of the action:	**Investments in the construction of a primary hub for processing and storage of the humanitarian aid with subsequent transportation to distribution hubs in areas affected by the war**
Responsible authority:	MIRD

PROBLEM

Target sectors:	Construction, transport, connected sectors
Target problems:	In full crisis of refugees from Ukraine, the society of the Republic of Moldova, the central and local public authorities, the business environment have solidarized, inventing ad hoc solutions within a limited time frame. As the burden of the humanitarian aid for refugees from Ukraine is taken over by international organizations specialized in this area, there is an unprecedented request for logistics services, including storage, sorting, packing, marking and transportation of the humanitarian aid. The logistics effort shall be, on the one hand, cheap, in order to help as many people as possible, and, on the other hand, they need to be quick, to allow timely support for those who need it.

INTERVENTION

Summary of the proposed intervention	Building in Moldova a primary hub for processing and storage of the humanitarian aid, for its further transportation to distribution hubs in the affected areas
Implementation mechanism	The hub location must ensure a quick access to the main transport nodes: a. High-capacity airport; b. Road transport - quick access to the main road corridors in the region. A strategic location could be in the proximity of Marculeşti Airport. On the one hand, it would allow the use of the already existing halls, on the other hand, it would bring value to the airport, if investments are made (sale, long-term rent or public-private partnership). The construction costs for a storage area of 6-8 thousand sq.m. with the capacity of about 5 thousand tons of humanitarian aid are estimated at 4 million EUR. In addition to the construction costs, expenditures of about 1.5 million EUR will be necessary for the purchase of equipment, pallets, shelves etc. It should be preferably located in a free economic zone or in a special territory in order to avoid any formalities or fees related to product entry and exit to/from the country. If the location near Mărculești Airport is accepted as a solution, about 4 million EUR will be needed to modernize the airport, including the runway lighting, the security infrastructure, the passenger terminal. The passenger terminal is not absolutely necessary for the operation of the Hub, but it would allow the amortization of the investment, including by the provision of passenger transport services. Initially, the Hub will be organized to provide logistics services for humanitarian aid to the three distribution hubs in Ukraine: in Kyiv, Vinnitsa and Dnipro. The time required for receiving, sorting and sending the aid is estimated to 2-5 days. The hub will conclude contracts with the Moldovan carriers who will be required to deliver humanitarian aid to the indicated place or to rent a number of trucks to

international organizations. The hub could be operated by labor force from the Republic of Moldova, relatively inexpensive, at least 80% when operational and 100% when it is "in standby".

COSTS

Investment projects	7 million EUR for Hub construction, 4 million EUR for airport modernization.
Budget costs	Allocation of the land for hub construction.
Administration costs:	Private-public partnership with the possibility of subsequent concession for commercial purposes

Name of the action:	**Establishment of the Fund for the Development and Acceleration of the Sustainable Economy (FDAED)**
Responsible authority:	ME, ODIMM

PROBLEM

Target sectors:	All sectors of the economy, according to the priorities set by the Government, in particular, agriculture, production of goods and services.
Target problems:	On average, the interest rates on loans awarded by the commercial banks to the real sector of the economy are much above the European average, and those contracted through non-banking financial institutions are even 2-3 times higher than in the banking sector, reaching an effective annual rate of interest of 30%. Therefore, in addition to the problem of access to finance through loans, another fundamental problem that entrepreneurs face is the lack of cheap sources of crediting. The crisis that the Republic of Moldova is currently going through, starting with the pandemic crisis, followed by the energy crisis, and recently, the security crisis caused by the war in Ukraine, has generated a shortage of working capital for the economic entities and a reduced appetite for investment projects. According to estimates, the SME sector has a financing need of 600 million EUR. The implementation of this facility will allow to support about 3,000 companies, giving them the opportunity to access preferential loans at a fixed interest rate and at a low cost or at a subsidized interest rate.

INTERVENTION

Summary of the proposed intervention	Providing support as low interest loans to economic entities in certain sectors of the economy, in accordance with the priorities set out in the Government's policy documents, and compensations for the payment of the bank interest rates for the contracted loans.
Implementation mechanism	FDAED will attract cheap financial resources from the State budget and from donors, making them accessible for the entrepreneurs, using the existing financial infrastructure, so that crediting institutions can assess the credit risk. Thus, the financial institutions that give the possibility to re-credit the financial means will be selected. If necessary, the FDAED will subsidize the interest rate. The proposed mechanism differs from the traditional ODIMM intervention instruments (guaranteeing the loans and providing grants) by allocating a crediting line at minimum credit rates. The FDAED will be developing products specific to the company's life cycle, as well as to the Government's development priorities.

COSTS

Investment projects	600 million EUR (about 12 billion Lei) allocated by the FDAED with donor support over three consecutive years
Budget costs	10 million EUR (about 200 million Lei) per year for FDAED capitalization

Administration costs:	1% from FDAED capital

PROJECT SHEET #C8

Name of the action:	**Stimulating the establishment in Moldova of alternative investment funds with private equity, with venture capital and / or mezzanine type to ensure the growth capital of SMEs for the next 5-7 years.**
Responsible authority:	ME, CNPF, ODIMM

PROBLEM

Target sectors:	SMEs in the production and service provision sectors.
Target problems:	The investment climate in Moldova is characterized by providing a significant (but insufficient) support for the launch of start-ups, which then face the realities of mainstream lending. The survival rate of startups is generally moderate, and the emergence of unicorns (companies that become global players) is a rare event, but in Moldova – very rare. Mezzanine financing is necessary for companies that have already passed the start-up stage, but need scalability to reach their potential. The proposed fund is meant to provide funding at this specific stage of SME development. The funding need is estimated at 600 million dollars at least for SMEs in Moldova, where the industry and services would require additional funding of around 230 and 200 million dollars, respectively. In particular, 40% of SMEs planned to attract additional funding by December 2021, and the average funding would be around 3.3 million MDL per SME. In addition, most SMEs would prefer bank loans or State subsidies/grants. However, 11% of small businesses would consider subordinated loans, preferred shares or other types of financing, rather than bank loans or grants.

INTERVENTION

Summary of the proposed intervention	Establishment of a 30 million EUR investment fund to provide financing as convertible loans, loans with an interest rate linked to sales revenue, preferred shares, capital injections, etc.
Implementation mechanism	The establishment of such a Fund in the Republic of Moldova will be the mission of the Ministry of Economy, the Investment Agency. The role of policy makers is central for enhancing its credibility among the attracted foreign investors (eg, regional investment funds). The legal and organizational form will be adapted according to the practices in this field. In principle, this would be a private investment fund, and the state's contribution could be limited to offering the office that would host this team (ODIMM or Investment Agency). The management team has an important critical role, being estimated to 5 employees, and the fund for their annual remuneration is estimated at approximately 240 thousand EUR (the investment fund management fee is around 1-2% per year of the amount managed and 10-20% of the investment profit). As a result, the investment fund should manage around € 24 million in

order to be able to finance the € 240,000 salary fund in the medium-long-term, but also to capitalize on and support the necessary investments in the Republic of Moldova.

This future Moldovan investment fund could be founded by a regional fund, such as Gazelle. Securing the catalytic capital awarded as a grant will be critical for mobilizing the private investors. This catalytic capital is estimated to be between 2 million and 4 million EUR at the launch of the Fund, it could be allocated by the authorities from the resources raised or from the State budget, by the development partners, etc.

The investment capital could be taken from the following sources:

a) 10-15 million from the development partners, either as a grant or at a symbolic interest rate of 0-0.5% per year.

b) Direct State contributions (if deemed appropriate).

c) In order to promote long-term investments, the State could automatically allocate X pp of the annual salary increase to this investment fund or encourage the private sector to do so, however, this would only happen if the state wants to contribute financially to this fund.

d) The private sector could follow the initiative of the public sector to allocate a certain amount of the annual salary increase to the investment fund. It is important for the State to exempt the capital gains from taxes, if these contributions from the salary increase are kept for more than 7-10 years.

e) Giving the opportunity to all those who wish, including those in the diaspora, to invest in this fund in exchange for tax exemption for capital gains.

f) The commercial banks could also contribute with loans that would boost crediting to SMEs, which is only about 26% of the total portfolio at the moment.

g) Finally, the funding mix attracted may change depending on the state's appetite to contribute, which could be a wide range starting with minimal involvement by providing office space and the ODIMM platform for SME selection until to the channeling of part of the salary increases of civil servants to this fund in order to create an additional passive income similar to a private pension fund.

Finally, a company looking for long-term financing might receive the following forms of support:

a) loan for at least 7 years at a lower financing cost than in the banking market due to the mix: development partner - 0%, the State - at the interest of state securities for 7 years, the employees and private investors - at the interest of state securities for 7 years + 3p.p., for example, the commercial banks - at the interest of the attracted deposits + the commercial margin of 2 p.p.;

b) the loan in point a) could be adjusted to the needs of companies, such as convertible loans, loans with an interest related to business revenue, preferred shares, etc.

c) direct injection into the capital at a cost similar to that of point a) with a liquidity risk of at least 2p.p.

d) the expertise from private investors through their integration in the boards of directors or in the decision-making process

e) business risk divided between several partners.

Potential companies benefiting from this type of financing could be one of the SMEs that have participated in an ODIMM program. This would be a signal that the company is feasible and has passed a certain degree of sorting. At the same time, members of the management team could also identify potential SMEs for field research investments across the country, considering that some SMEs in certain districts are less visible or have not participated in any ODIMM program.

COSTS

Investment projects	30 million EUR is the minimum amount required for the investment fund (5-6 years) to become sustainable in the medium and long run, of which: 8 -10 million EUR should be provided as grant.
Budget costs	In order to encourage the employees or the individuals to invest in this fund, the State should exempt them from the capital gains tax, if the investment is kept for a minimum of 7 years.
Administration costs:	The salary fund would be of 240 thousand EUR per year in the medium to long term, in addition to the administrative expenditures, such as the rent.

Name of the action: **Development of innovation and technology parks within the industrial park network**

Responsible authority: ME, MER, MC, PSA, MAS

PROBLEM

Target sectors: SMEs in ICT, creative industry, R&D, automotive, microelectronics, clothing, service provision and logistics sectors

Target problems: The Republic of Moldova is facing a chronic brain drain while, paradoxically, the demand for highly skilled labor force remains unmet. In many cases, the connection between the supply and the demand needs a physical space, conducive to research, innovation and content creation activities. In international experience, such a physical space takes a specific form due to investments, development and a special activity regime (eg, IT Palace in Iasi, Liberty Park in Cluj, Unit City in Kiev). In the Republic of Moldova, the special activity regime can take the form of innovation parks hosting 15-20 thousand specialists in the fields of creativity, research and innovation, ICT. In addition, the demand for modern premises also comes from the clothing and microelectronics industries, which are unable to re-engineer their production lines in the existing premises.

INTERVENTION

Summary of the proposed intervention: Development of a network of innovation parks to accelerate the high value-added sectors (ICT, creative industries, research and innovation, media, cinema) through the following actions: a. Amendment of Law no.182 /2010 on industrial parks by prioritizing the development objectives of innovation, technological, creative and R&D parks and others in terms of governance, financing and organizing; b. identifying, with the help of the MoE and PSA, the public properties that can be allocated for the establishment of new parks, especially in Chisinau, Balti or in their vicinity; c. Reorganizing the Moldova-Film State company into an Innovative and Creative Park, as a pilot for the relaunch of the film and media industry in Moldova; d. Expanding the Tracom premises to new untapped locations, by setting up new sub-areas that allow investments in new office sites in Chisinau for the IT/Creative industry, with the relocation of the industrial production, warehouses and logistics outside Chișinău.

Implementation mechanism: The Ministry of Economy and PSA will identify strategic locations for the Innovation and Creative Parks, applying the modernized mechanism stipulated in the Law on Industrial Parks. The State will provide the basic infrastructure (water, electricity, roads), will propose premises for lease/rental under a preferential regime.

Stage 1 (immediate):

- 1 IT Park - Tracom (to be extended)
- 1 R&D and Engineering Park in Chisinau, implemented by Balti Free Economic Zone.

	- 1 Creative and Film/Media Park - by reorganizing the Moldova-Film State Enterprise and allocation of additional locations - 1 Intelligent Industries and Logistics Park - in the proximity of Chisinau and/or Balti (Mărculești airport through the Raut Industrial Park)

COSTS

Investment projects	A preferential credit line of 50 million EUR for the administration and residents of the innovation parks.
Budget costs	Allocations for the connection costs from LPA budgets.
Administration costs:	Allocation of publicly owned land/sites.

Name of the action:	**Development of multifunctional industrial platforms and of the business incubator network**
Responsible authority:	ME, ODIMM

PROBLEM

Target sectors:	All sectors of the economy, provided that they follow the principles of smart specialization
Target problems:	The network of rural business infrastructure is outdated and in a precarious state, what creates major constraints for the balanced regional development. In fact, the potential entrepreneurs have no place to locate their business, given that the available sites are not connected to the utility network. In particular, certain geographical regions of the Republic of Moldova are completely disconnected from the economic circuit, because of the lack of an industrial infrastructure. At the same time, the network of business incubators operates close to its capacity limit, so the expansion of the areas is vital.

INTERVENTION

Summary of the proposed intervention	Establishment and development of 6 Multifunctional Industrial Platforms (MIPs) in the districts of Glodeni, Dondușeni, Cimișlia, Briceni, Ocnița and Călărași and strengthening the network of 11 business incubators by expanding and renovating additional areas.
Implementation mechanism	A. The following steps are to be taken for the establishment and development of 6 Multifunctional Industrial Platforms (MIPs): • Identification and selection of the land for MIP establishment • Analysis and conduct of pre-feasibility and feasibility studies to determine the actions needed to promote the MIPs • Territorial and strategic development planning, carrying out development works aimed at the production technical infrastructure and connecting to the utilities • Implementation of MIP institutional development actions and developing the services provided to resident/potential resident SMEs B. The following types of support shall be provided for the development and strengthening of the network of 11 business incubators: • Financial support to business incubators and incubation programs for expanding the available incubation areas, enhancing the type and the quality of the services provided to companies in the regions, including at the pre-incubation, incubation and post-incubation stages; • Support for SMEs by facilitating their connections with other business support institutions, avoiding the separation of the incubated businesses from the entrepreneurial community and the existing business support infrastructure/industrial ecosystems; • Capacity building and strengthening the incubators to support different economic sectors, depending on sector-specific challenges; • Adaptation and use of the tools for monitoring of the support provided to ensure the relevance of service provision.

COSTS

Investment projects	40 million EUR for the establishment of 6 Multifunctional Industrial Platforms and 10 million EUR for strengthening the established network of 11 business incubators
Budget costs	15 million Lei as the Government’s contribution, within the unused balance from the previous year
Administration costs	The ODIMM Project Implementation Unit will have process administration costs of approximately 10% of the Program’s amount.

Name of the action:	**Equipping and expanding the laboratories for certification of the Moldovan products**
Responsible authority:	ME, ODIMM, NIM

PROBLEM

Target sectors:	Business entities from various sectors, beneficiaries of conformity assessment services
Target problems:	The export potential of the Republic of Moldova is not fully exploited because of the lack of national laboratories for the certification of Moldovan products, in accordance with the European standards. As a result, in order to promote the exports, the domestic producers have to bear high costs related to export batch certification in foreign laboratories. Thus, national product certification is constrained by the limited capability of testing in accordance with the EU rules and standards.

INTERVENTION

Summary of the proposed intervention	Providing the laboratories for the certification of Moldovan products with testing equipment and training of the specialized personnel
Implementation mechanism	Identification of the priority economic areas and direct financing by the State of the quality infrastructure by allocating budgetary resources to State institutions that are part of the quality infrastructure and facilitating the access of private laboratories to funding.

COSTS

Investment projects	30 million EUR as credit lines/grants for the purchase of testing equipment and capacity building.
Budget costs	Within the limits of the additional resources provided by the development partners.
Administration costs:	Within the current administrative expenditures.

Name of the action:	**Capitalization of the Credit Guarantee Fund**
Responsible authority:	ME, ODIMM

PROBLEM

Target sectors:	All sectors of the economy, in accordance with the priorities set out in Government policies
Target problems:	The Credit Guarantee Fund facilitates the access of the entrepreneurs to borrowable financial resources and operates under the ODIMM umbrella. Under the conditions of the credit market of the Republic of Moldova, where SMEs make over 95% of companies, the lack of real guarantees (pledge) is one of the main problems faced by the business environment when contracting loans. Therefore, the lack of own guarantees is a problem faced both by SMEs and by large companies and is one of the most common reasons for the rejection of the requests for loans by the banks.

INTERVENTION

Summary of the proposed intervention	The capitalization of the CGF is necessary in order to carry out the following actions: - Granting individual guarantees according to the loan-by-loan scheme; - Provision of portfolio guarantees - a commitment through which ODIMM takes over the credit risk associated with a portfolio of eligible loans, granted under the terms of a collaboration agreement signed with a commercial bank. The advantages of this mechanism are the reduced processing time and the low implementation costs; - Provision of financial guarantees for loans re-credited by banks through the Fund for Development and Acceleration of the Sustainable Economy, if necessary.
Implementation mechanism	The guarantee mechanism does not differ from the current one, but the guarantee capacity is increased and, as a result, the lending capacity of the banks, too. At the moment, CGF has the capacity to guarantee a loan volume of 2 billion Lei, insufficient to cover the (currently increased) demand of the entrepreneurs. The capitalization of CGF in an amount of 1 billion Lei (50 million EUR) will create the possibility to increase the credit potential to 10 billion Lei.

COSTS

Investment projects	50 million EUR for the capitalization of CGF with the support of the development partners
Budget costs	15 million Lei for the capitalization of CGF provided for in 2022 budget.
Administration costs:	No administration costs. The fund is sustainable since the moment of its capitalization, and the costs are covered by investing the existing balance.

Name of the action:	Reorganization of the "Moldovan Railways" State Enterprise and renovation of the railway tracks.
Responsible authority:	MIRD, ME, PSA, CFM

PROBLEM

Target sectors:	Railway transport, all sectors consuming freight services.
Target problems:	As a result of the war in Ukraine, the trade in goods, both the exports and the imports, requires the identification of ways to bypass the areas affected by war. At least 1/3 of the road freight transport used to cross the border between the Republic of Moldova and Ukraine, mainly to the direction of Odessa seaport. Given the destruction of Odessa's port infrastructure, the need for detours will remain a medium-term priority, not only for the economy of the Republic of Moldova, but also as a transit route for the Ukrainian enterprises. The ports of Giurgiulești, Galați and Constanța are alternatives to the port of Odessa. Giurgiulești has a limited transhipment capacity of 2 million tons per year, to be increased to 4 million tons as a result of additional EBRD investments. The ports of Galați and Constanța have sufficient capacity to respond to the needs of the Republic of Moldova. The major constraint is the land connection with these ports, given that the national roads are not well adapted to the transport requirements. Railway transport would be a viable alternative provided that the CFM is re-capitalized.

INTERVENTION

Summary of the proposed intervention	As a result of the bad management of the CFM by the previous administration, this State enterprise has a negative capital of 250 million Lei. In order to access loans for modernizing its infrastructure, repairing the dangerous slopes, developing the capacity to transport high tonnage goods, the company needs to be capitalized by the means of reorganization.
Implementation mechanism	The reorganization of the CFM will be done by segregating the railway infrastructure from the freight and passenger transport, attracting a strategic investor (for example, EBRD) to participate in the privatization of the freight and passenger transport component of the CFM. At the same time, investments of about 700 million Lei are needed for the renovation of Cahul-Ungheni railway section in order to ensure an independent transport corridor.

COSTS

Investment projects	9,75 million EUR for the share of the strategic investor in the CFM and the renovation of the railway tracks
Budget costs	125 million Lei as the State's share in the CFM
Administration costs:	No administration costs are required.

Name of the action:	Grant program for digital business transformation
Responsible authority:	ME, ODIMM

PROBLEM

Target sectors:	Processing industry, e-commerce and fintech infrastructure, technological agriculture development, HORECA
Target problems:	There is an untapped potential, along with the need for companies to adopt the digitization practices. In this context, the entrepreneurs face the following key issues: i) Lack or inappropriateness of the knowledge and skills in terms of developing a company's webpage or management of an e-commerce development strategy/plan; ii) Limited knowledge about how to select and work on online sales platforms; iii) Lack of knowledge and high prices associated with the "urgent" transition to e-commerce methods and platforms; iv) Limited financial resources for the digital transformation of the company's internal technological processes; v) Lack of awareness about the locally available IT tools; vi) Lack of involvement of local software/IT service providers with affordable prices for SMEs; vii) Limited financial resources for the implementation of the equipment/solutions necessary for the elimination of cash from the circuit; and viii) High costs of the delivery process management for the HORECA hospitality industry.

INTERVENTION

Summary of the proposed intervention	Providing methodological support to companies aiming at the digital transformation in order to promote the accelerated absorption of information and e-commerce technologies, providing grants for the institutional capacity building in the fields of digital transformation, monitoring and mentoring at the implementation stage.
Implementation mechanism	Financial support as grants awarded by ODIMM in the amount of up to 500 thousand Lei (25 thousand EUR) per beneficiary to cover a maximum of 70% of the following eligible costs: 1) purchase of ICT hardware and of other connected devices and equipment, including costs of installation, configuration, commissioning, justified from the perspective of project implementation; 2) purchase and/or development and/or adaptation of software applications/licenses necessary for project implementation, configuration and implementation of databases, migration and integration of various existing data structures; 3) purchase and/or development and/or adaptation of complex automation systems of ERP/CRM type; 4) purchase of new technological equipment, systems, machines, machinery and working tools, necessary for the digitization, innovation and modernization of the operational process; 5) purchase of services for the transfer of archives from analogue/file/paper to digital format; 6) purchase of information technology services/solutions for electronic commerce; 7) acquiring Cloud and SaaS services; 8) purchase of cybersecurity strengthening services applicable to software/hosting/networking;

9) purchase of consultancy services for developing the technical documentation necessary for project implementation;
10) training of the staff who will use the implemented/purchased products and of the staff who will ensure the maintenance as their own contribution;
11) partial coverage of the costs/expenses incurred on MarketPlace electronic platforms in the process of delivery of goods/services, but not exceeding 20% of the maximum amount of the grant for a period of maximum 36 months after the date of the approval;
12) purchase of equipment and software solutions that allow the minimization/elimination of the physical currency from circulation;
13) purchase of equipment and solutions necessary for the organization of the delivery process in the HORECA hospitality industry.

The companies that do not have their own financial resources will have the possibility to be provided loans through the Credit Guarantee Fund.

COSTS

Investment projects	40 million EUR from sources coming from the development partners
Budget costs	60 million Lei (3 million EUR) within the current program
Administration costs:	10% of the project’s budget

Name of the action:	Local supplier development program/integration of enterprises into the international value chains
Responsible authority:	ME, ODIMM

PROBLEM

Target sectors:	Automotive sector, metal processing, injection molded plastic production; electrical and electronic parts and components.
Target problems:	A large number of enterprises in the Republic of Moldova face various bottlenecks that hinder their development and the opportunity to increase their contribution to the economic growth, innovation, employment and technological development. These include: • Low level of competitiveness of rural enterprises; • Outdated technologies. Soviet-type or overused equipment and technologies are still predominant; • Limited financial support and low access of rural enterprises to funds; • Insufficient awareness of the new high value-added production technologies and of the possibilities for their implementation in the business; • Insufficient awareness of the export techniques/access to foreign markets, of the way how to establish and develop the links with international companies.

INTERVENTION

Summary of the proposed intervention	The program provides an integrated approach to support the development of the capability of the Moldovan enterprises to easily integrate into the regional/international value chains as suppliers to multinational companies and/or direct foreign investors. Within the program, companies will be provided support through training and coaching sessions, financial support as grants, along with targeted support for identifying, establishing and developing partnerships with multinational companies and/or direct foreign investors.
Implementation mechanism	The program will be implemented by ODIMM, with the involvement of institutions in the field of Quality Infrastructure, Research and Innovation, Intellectual Property Protection. The program will provide funding through grants to about 1000 eligible beneficiaries, associated with business training, consulting and mentoring, as well as B2B activities to identify, establish and develop partnerships with multinational companies and/or direct foreign investors

COSTS

Investment projects	40 million EUR from sources attracted from the development partners
Budget costs	No budgetary allocations are expected.
Administration costs:	10% of the project’s budget

Name of the action:	Program to support digital innovation and technological start-ups
Responsible authority:	ME, ODIMM

PROBLEM

Target sectors:	ICT sector, engineering, R&D and innovation, creative industries
Target problems:	The limited access to finance does not allow the full capitalization on the innovation potential. Currently, only about 14% of researchers in the Republic of Moldova work in the field of technology-based sciences and engineering, which does not fully meet the needs of the IT industry, which has shown an accelerated annual growth by about 20% over the past years. Innovations are needed in all value chains, and they are a critical factor for developing the competitiveness. Locally sourced innovation solutions are extremely scarce, while ICT products are almost entirely export-oriented, and do not have a significant contribution to enhancing the productivity in other sectors of the national economy.

INTERVENTION

Summary of the proposed intervention	The program implies providing methodological support for companies that aim to implement and develop innovations, by organizing training sessions, accelerators, hackathons, as well as by contracting the necessary technical expertise. At the same time, the companies will be provided financial support as grants of up to 500 thousand Lei (25 thousand EUR).
Implementation mechanism	The program is to be implemented by ODIMM and it will cover the following topics: digital innovations, green technologies, sustainable production. The topics are cross-sectoral, what will ensure the eligibility of innovations in the target sectors, including: ICP, digital media, clothing, agriculture, education, health, financial services, creative industries, e-commerce, recycling. The program provides for grant funding to about 700 eligible beneficiaries, associated with training, consulting and mentoring for each beneficiary in the process of developing innovations and implementing the investment project.

COSTS

Investment projects	30 million EUR from sources attracted from the development partners
Budget costs	No budgetary allocations are expected.
Administration costs:	10% of the project’s budget

Name of the action:	Company retrofitting and energy efficiency program
Responsible authority:	ME, ODIMM

PROBLEM

Target sectors:	Energy-intensive sectors, in particular the food industry, the light industry, furniture manufacturing and the production of automotive components.
Target problems:	Moldova aims to increase the share of green energy by up to 10%, which is 300 million megawatts of installed power or an estimated investment of 300 million EUR. In order not to affect the electricity network, the immediate target is 120 megawatts, estimated at 120 million EUR. The electricity consumption accounts for up to 20% of the production costs borne by SMEs (eg, in the textile industry), therefore most entrepreneurs are interested in investing in alternative energy (solar and wind energy). The average investment per SME is about 150 thousand EUR, with a recovery period of 5-7 years. The increase in the electricity and gas tariffs, coupled with lower costs for photovoltaic technologies, will help enhance the return on such investments. At the same time, encouraging the consumption of energy from alternative sources would reduce the dependence on the imported energy resources.

INTERVENTION

Summary of the proposed intervention	Subsidized financing of SMEs in the targeted sectors (loans at advantageous rates and/or grants) for the installation of photovoltaic panels (and, possibly, low-capacity wind farms) and the purchase of low-energy equipment.
Implementation mechanism	The value of the program is estimated at 60 million EUR for investments in photovoltaic, wind, biogas and high energy efficiency equipment. Financial support for about 500 SMEs is to be mediated by ODIMM through preferential grants and/or credits. The contribution of the Government of Moldova will consist in VAT exemption of the photovoltaic equipment imported or produced/assembled in Moldova in the amount of 12 million EUR (20% of the program's value). The first stage of program implementation will last 3 years (2022 - 2025), with the possibility of extension.

COSTS

Investment projects	60 million EUR from sources attracted from the development partners.
Budget costs	280 million Lei (12 million EUR) as lost VAT revenues.
Administration costs:	10% of the program's budget.

PROJECT SHEET #D5

Name of the action:	Business growth and internationalization program
Responsible authority:	ME, ODIMM

PROBLEM

Target sectors:	Manufacture of machinery and equipment; metal processing; manufacture of equipment and parts; food industry and agriculture; light industry; electric devices; biomedicine, biopharmaceuticals, bioinformatics; information and communications
Target problems:	The export potential of the national economy is not fully exploited, because of the constraints in terms of capacity and competitiveness of the Moldovan enterprises to benefit from the opportunities provided by the Free Trade Agreements (AA/DCFTA, CIS, CEFTA, Turkey).

INTERVENTION

Summary of the proposed intervention	Providing to SMEs in the target sectors financial support as Business Vouchers for the purchase of business development services, and as grants for the purchase of fixed assets to increase business competitiveness and productivity.
Implementation mechanism	The program is to be implemented by the ODIMM with the involvement of institutions in the field of quality infrastructure, research and innovation, protection of intellectual property. The program is estimated at 50 million EUR (800 million Lei), an amount to be raised through grants provided to companies with a high potential for growth and internationalization for skill training and for enhancing the competitiveness, the productivity and the internationalization of business, what will help achieve the following targets: - business growth, enhancing their competitiveness and productivity as a result of adopting new technologies, performance management systems, as well as increasing the efficiency and quality of products/services, according to the European and international standards; - overcoming the technical barriers to trade; diversification of products/services with a high added value and adapting them to the European and international standards; identifying new foreign markets or potential business development partners; - increasing the capability of enterprises to establish and strengthen the links with the local and foreign partners

COSTS

Investment projects	50 million EUR from sources coming from the development partners for 3 years of implementation
Budget costs	120 million Lei (6 million EUR) - budget allocations planned for the period 2022-2024
Administration costs:	10% of the program’s budget

Name of the action:	Small Producers Support Program
Responsible authority:	ME, ODIMM

PROBLEM

Target sectors:	Micro-enterprises sector, small family businesses, local entrepreneurial initiatives
Target problems:	The “informal economy” is still quite large, especially in the rural areas, where small businesses are not competitive enough to meet the market requirements and standards. Thus, in the absence of financial resources for investment and an adequate entrepreneurial education, a large share of small producers choose to remain in the informal economy and in rudimentary business. This increases the competitiveness gap between them and the large producers, blocks their access to the internal and external trade chains and reduces their chances of long-term success.

INTERVENTION

Summary of the proposed intervention	Financial resources will be leveraged through business support and grants provided to small entrepreneurs. Non-reimbursable funding will be provided through grants of up to 500 thousand MDL (25 thousand EUR) per company, associated with training, consultancy and mentoring on running a business and implementing quality standards.
Implementation mechanism	The program will be implemented through ODIMM, with the involvement of the regional network of Business Incubators and other local partners, both public and private. As estimated, 700 micro-enterprises, small family businesses and local initiatives can benefit from this facility.

COSTS

Investment projects	30 million EUR from the sources attracted from the development partners for 3 years of implementation
Budget costs	No budgetary allocations are expected.
Administration costs:	10% of the project’s budget.

Name of the action:	Greening business program
Responsible authority:	ME, ODIMM

PROBLEM

Target sectors:	Agriculture and food industry, light and heavy industry, service provision
Target problems:	Recent studies and public policy evaluation have highlighted the need for further action to encourage the companies to adopt more environmentally friendly business practices. At the same time, it was found out that a relatively small number of companies are engaged in environmental actions. The Republic of Moldova faces a number of environmental issues, including wastewater management, waste management, adaptation to climate change. These problems are amplified as a result of the business processes. Thus, solving them within the companies becomes a priority. The implementation of the program will also have a positive impact on achieving "green" growth indicators.

INTERVENTION

Summary of the proposed intervention	The purpose of the Greening Program is to promote, support and develop the companies' capacity to adopt greening practices for the production and service provision.
Implementation mechanism	The program provides for financial support to businesses through ODIMM. The beneficiaries of this program will be the enterprises in the targeted fields, namely: 1) agri-food: in particular, the transition to organic farming, the efficiency of the use of water resources and a cleaner production, reducing the pollution from waste management, the use of environmentally friendly packaging. 2) industrial: in particular, resource efficiency and cleaner production, reduction of chemical pollutants in production processes and reduction of water use, wastewater management, waste management/recycling. 3) services: in particular, adopting eco-approaches in service provision, reducing the amount of packaging and of plastics, reducing the pollution, waste management. The value of the program is estimated at 40 million EUR which will be provided through grants to businesses with a potential to green the production processes.

COSTS

Investment projects	40 million EUR from sources attracted from the development partners for 3 years of implementation
Budget costs	No budget allocations are expected.
Administration costs:	10% of the project's budget.

Name of the action:	Rural tourism development program
Responsible authority:	ME, ODIMM

PROBLEM

Target sectors:	Economic entities in the field of tourism, especially in the rural areas.
Target problems:	The impact of the pandemic crisis on SMEs in tourism sector has negatively affected 2/3 of the host tourism companies, which have suffered financial losses in the absence of international tourists. The return to normality is constrained by the following systemic problems: i) lack of knowledge on cost reduction and implementation of good practices for the development of sustainable tourism; ii) the tourism sector is slowly addressing the challenges of moving from a linear to a circular economy model; iii) the lack of effective adoption of innovation towards circular models and the development of partnerships.

INTERVENTION

Summary of the proposed intervention	The rural tourism development program has the following strategic objectives: 1. Promoting rural tourism at the local, regional and national level; 2. Strengthening the entrepreneurial capacity and the partnership; 3. Supporting SMEs towards the development of the value chain in rural tourism; 4. Local, regional and national SME funding through a partnership grant scheme.
Implementation mechanism	The program provides for financial support to businesses through ODIMM. The program will have the following components: 1. Information, communication and visibility; 2. Training, consulting and mentoring for SMEs; 3. Approaching the integrated partnership for rural tourism; 4. Financial support for SMEs through grants; 5. Monitoring and evaluation.

COSTS

Investment projects	5 million EUR from sources attracted from the development partners for 3 years of implementation
Budget costs	No budgetary allocations are expected.
Administration costs:	10% of the project's budget.