



The National Confederation of Employers
of the Republic of Moldova

Key constraints on the business environment in Moldova

Chisinau, 2013

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Acronyms

AEI	Alliance for European Integration
NACP	National Agency for Competition Protection
CC	Competition Council
ILC	International Labour Conference
CSIR	Center for Strategic Investigations and Reforms
NCCCN	National Commission for Collective Consultations and Negotiations
NECM	National Employers' Confederation of Moldova
NTCM	National Trade Unions Confederation of Moldova
EESE	Enabling Environment for Sustainable Enterprise
GEA	Program "Efficient Enterprise Administration"
IDIS	Institute for Development and Social Initiatives
SME	Small and Medium Enterprises
IOE	International Organization of Employers
ISS	Institute for Security Studies
MEC	Ministry of Economy
ODIMM	Organization for Developing Small and Medium Enterprises
ILO	International Labour Organization
PARE 1+1	Program for Attraction of Remittances into the Economy
GDP	Gross Domestic Product
PNAET	National Program for Economic Mobilization of Youth
TIC	Information and Communication Technologies
WEF	World Economic Forum

Executive Summary

This report assesses key constraints to the development of private businesses in Moldova in eight key areas: (1) *peace and political stability*, (2) *good governance*, (3) *social dialogue*, (4) *legal and regulatory environment*, (5) *competition*, (6) *physical infrastructure*, (7) *education and training of the labour force*, and (8) *labour code and the protection of human capital*. The assessment was done using the secondary analysis of existing data and by comparing Moldova with a number of countries. The primary data gathered during the business survey undertaken in April – May 2013 with about 200 Moldovan enterprises of various sizes, locations and sectors of activity was also used.

The countries chosen for comparison are Bulgaria, Estonia, Lithuania, Romania and Slovenia. These have been chosen considering a number of criteria such as geographical proximity, common historical developments and their economic similarities in the recent past. The secondary data used in this report show that Moldova performs consistently worse than any other comparator country in almost all dimensions assessed. This is a rather disappointing finding, considering the fact that in order to enter a more sustainable path of economic development, Moldova desperately needs more investment capital than it currently has at its disposal. Foreign direct investments are the only available source that could provide the necessary investments; however, investors have been easily scared away from Moldova and chose other countries to invest in. In this regard, the poor quality of governance and that of the business environment as a result of this poor governance have an essential role on

directing investments. Redressing Moldova's rankings in international business along with good governance ratings should become an immediate priority for the Moldovan Government.

In the same time, redressing the country's international image without properly fixing the economic realities is simply impossible. In this regard, the perceptions of Moldovan enterprises concerning current business conditions are, again, negative and in most of the cases quite aligned with the international ratings.

Political instability seems to generate particularly deep concerns among Moldovan enterprises. It is likely that because of the fact that the survey had been conducted in a period of political and governmental crisis, the absolute majority - 83.9% - of the participating businesses have stated that the periods of political instability troubled very much the development of Moldovan enterprises. Indeed, during the undertaken business survey, this has emerged as the most problematic factor, emphasizing that the dysfunctionality of key state institutions during periods of political turbulence has a direct negative influence on these companies.

This in turn, is reflected in the level of their trust in state policies. More than 78% of the respondents regarded the legal and regulatory framework of the Republic of Moldova as failing to foster the operation and development of enterprises. The exact same share of companies claims that corruption and bribery are major barriers for business activity in Moldova. About one third of respondents

(33.2%) claim that enterprises similar to theirs have to bribe “frequently” or “systematically” in order to solve various problems in their relations with supervisory authorities. Moreover, more than two fifths of respondents state that the Government is not sufficiently dedicated to tackling corruption.

It is also relevant that most people (over 70%) perceive that the Government is insufficiently cooperative with its dialogue partners representing the business environment. Probably that is why around 4 out of 5 companies believe the social dialogue carried out through the tripartite committees is inefficient, may that be at the national, sector or territorial level.

Overall complex and unstable regulations affecting Moldovan companies require a lot of time and professional qualified efforts from the part of enterprises in order to be dealt with. More than 62% of managers or owners of the interviewed enterprises believe that the time spent to comply with the Government’s regulations is a major problem for the enterprise, with this problem being particularly severe for companies in the regions.

What is particularly striking and somehow contradicting other studies, is the fact that almost 60% of the interviewed businesspeople believe that in Moldova it is fairly easy to obtain licenses, permits and authorization for businesses, while at the same time, 63.4% of respondents state that the general rules for issuing these licenses, permits and authorizations in Moldova only meet the minimum standards of quality and transparency..

Fiscal administration, including the calculation and recording, the payment of taxes, as well as the reporting have been identified as the most important constraints for the development of enterprises, according to 54% of the sampled enterprises (especially the newly-started ones).

Therefore, a huge constraint for the development of enterprises is the fiscal

burden, which ranked second in the top of problematic factors, right after political instability. This is regarded as a strong or very strong constraint by 68.8% of the interviewed businesses, especially by those located in the regions. A similar perception, although not so vastly spread (52.2%) has been recorded in relation to the level of shares for state social and health insurances. .

Competition is another area of concern for Moldovan companies. One third of the surveyed companies believe that there are anti-competitive practices in their sectors, a view particularly spread among micro- and small enterprises. At the same time, more than 40% of businesspeople regard the anti-trust legislation as inefficient in combating or controlling this phenomenon. Another worrisome figure, 55% of the respondents believe that the current legal framework is disadvantageous for small enterprises. And as a final remark in the competition area, almost 60% of the interviewed companies believe that political connections are needed in order to be able to benefit from governmental support programs.

While in international comparison, the quality of the Moldovan infrastructure may not look particularly bad, the domestic perceptions are troublesome: 72.2% of the surveyed enterprises report significant costs incurred by the enterprise because of the underdeveloped or inappropriate shape of the physical infrastructure.

Coming to the researched social elements, one of the most striking information is that vocational education gets a merely 10% of the total funding allocated for education, which is not enough to modernize the system and to train specialists with skills relevant for the labour market. According to the EESE survey, almost half of enterprises encounter difficulties on a frequent or even systematic basis, when it comes to hiring staff with the desired competencies and skills. Paradoxically, although the shortage of skilled workforce is a

constraint for over 46% of companies from our sample, a majority of 57% of business do not allocate financial resources for training.

The business sector's opinion on the adequacy of the labour legislation is remarkably split: half believes that provisions of the labour code, particularly those relating to employment, remuneration and dismissal, are not sufficiently adjusted to the market economy needs, whereas the other half believes there is no problem with the labour legislation. This in itself does not mean that labour code should not be improved. Moreover, it should ensure a fair balance between the rights of employees and those of employers. Thus, it should allow companies to hire the best workers and to easily let go those that fail to perform according to the standards contractually agreed upon.

The informal economy, including hiring without contracts, the double accounting, tax evasion, and last but not least, the favouritism

or acts of corruption, are recognized widely present phenomena within Moldova's business environment. It is very important to focus on the elimination of these constraints that harm the enterprises which conduct their activities honestly, in compliance with the legal provisions, and that distort their competitiveness when opposed to the actors of the informal economy.

Moreover, we should not forget that the quality of the business environment in Moldova depends not only on the state and the governmental policies, but on the representatives of business as well, on their professionalism and honesty, on their actions and accountability, both in their relations with their partners and clients, as well as in those with the employees, the state and the community.

Recommendations

The most important problems and constraints that hinder the development of businesses in the Republic of Moldova, as identified in this study can be removed or mitigated through a series of complex and correlated efforts with the government. Consultation with social partners and especially with the representatives of the business community – CNPM - is essential in assisting the government to get things right and enable a proper business climate.

Below we present a series of measures that need to be adopted and implemented in order to eliminate the above identified constraints.

1. Depoliticize and ensure the accountability of governmental institutions by a systematic monitoring from the social partners and the civil society.
2. Eradicate the corruption phenomenon within state institutions by rendering transparent and accountable the procedures for issuing permissive documents for business, by fostering the central public administration reform, by implementing and enforcing meritocratic principles in all public institutions, by increasing the wages of competent public servants and by implementing IT tools in the deliverance of public services.
3. Foster an efficient, genuine and regular tripartite dialogue involving representatives of employers' and workers' organisations at national and regional level. In particular, the Government should consult with the

business associations on a more frequent and even systematic basis, when it comes to the adoption of public policies that affect the business environment. Taking into account these views of the business community will enhance their engagement, better policy making and their responsibility in relation to community problems.

4. Ensuring a transparent, predictable and non-inhibiting regulatory environment for private initiatives. Moreover, the equitable application of the regulatory framework should be ensured, so that an excessive burden not placed upon enterprises carrying out their activities in compliance with the legal provisions.
5. It is mandatory to simplify the tax and customs administration, perhaps leaving out the "taxing at all costs" paradigm in order to facilitate trade and commerce. This would in turn lead to the extension of the tax base and therefore to the increase of budget revenues, while also boosting the investment environment, which is currently an absolute priority for the Republic of Moldova.
6. Ensuring a free and fair competition in all sectors of the economy by:
 - eliminating the current entrance barriers to new markets, for more efficient and innovative companies;
 - eliminating political favouritism in the allocation of state aids available to enterprises;
 - a full and efficient functioning of the

Competition Council, independent of the political and economic elites of the country;

- reducing the share of informal economy;

7. Modernize the physical infrastructure by using the road fund efficiently, by including more transparent and depoliticized tenders when it comes to the rehabilitation of roads or other infrastructure elements. The budget allocations for the modernization of local infrastructure (access to water supply, electricity, gas, access to roads etc) should be increased, thus stimulating private, foreign or local investments.
8. Develop the vocational education and training in the country through a better correlation with the economic realities and especially with the skill demands of the labour market. Consultation with business community to this regard would be of particular importance. In the same time, companies should be stimulated to participate more actively in the process of training their current

and potential employees, including through ensuring tax deductibility of training expenditures, in accordance with international best practices in this area.

9. Adapt the Labour Code to the economic realities of the country, by easing restructuring procedures and by allowing companies to replace unproductive employees with the best ones, which in consequence could stimulate the investment and business environment within the Republic of Moldova.
10. Increase the efficiency of public procurements, by properly prioritizing public expenditure, by winding down the entry barriers for tenders and by ensuring an optimal balance between price and quality, with the elimination of the legal stipulation granting a strong advantage to offers with the lowest price. Additionally, it is necessary to strengthen the monitoring of project implementation, especially at the local level.

Introduction

The National Confederation of Employers of the Republic of Moldova (Confederatia Nationala a Patronatului din Republica Moldova - CNPM) is the most representative employers' organization that is legally empowered to promote and defend the legitimate interests of its members in their relationship with public authorities, trade unions and other legal entities. The CNPM was established on 27 February 1996 by five founding members and it currently consists of 30 members among which 14 employers' federations and employers' associations, and 16 large enterprises. It is estimated that the CNPM represents a total of 5000 enterprises that give employment to more than 450,000 employees. CNPM is also a member of the International Organisation of Employers (IOE)

The International Labour Conference (ILC) in 2007 unanimously endorsed a resolution describing the framework for sustainable enterprise growth. This framework outlines 17 pillars of a conducive environment for sustainable enterprise growth. These pillars are: (1) peace and stability; (2) good governance; (3) social dialogue; (4) respect for universal human rights and international labour standards; (5) entrepreneurial culture; (6) a sound and stable macroeconomic policy and good management of the economy; (7) trade and sustainable economic integration; (8) an enabling legal and regulatory environment; (9) the rule of law and secure property rights; (10) a fair competition; (11) access to financial services; (12) physical infrastructure; (13) ICT; (14) education, training and lifelong learning; (15) social justice and social inclusion; (16) an

adequate social protection; (17) responsible stewardship of the environment. This is the framework for the ILO's work on enterprise development that CNPM fully abides to.

Considering its institutional mission, the CNPM decided to use the Enabling Environment for Sustainable Enterprise (hereafter referred to as "ESEE") methodology developed by the ILO to assess the environment in which businesses start-up and grow. The methodology has been designed to help employers' organizations which are members of the ILO to assess and improve the enabling environment for the promotion of sustainable enterprises. Specifically, this methodology helped CNPM to identify constraints in the development of sustainable enterprises, and to formulate advocacy and reform proposals that can be used to render dialogue with governments more effective.

This document represents the result after applying the ESEE methodology to the environment in Moldova. In order to evaluate this national business environment using the ESEE methodology, the CNPM has hired the Independent Think-tank EXPERT-GRUP, in order to conduct the research on the key current constraints on the business environment that CNPM will then develop into constructive policy approaches capable of wide support. The overarching goal of this work was to widen CNPM's policy portfolio in an evidenced based way. In broad terms, a number of steps have been followed in order to reach this output: focus group meetings have been held to determine key priorities for research work, CNPM's Board of Directors approved

key areas of research, a national survey has been conducted based on representative sample (face-to-face interviews) to examine key issues for business as confirmed by CNPMs BOD, secondary data have been collected and analysed and this report combining the primary (survey) and secondary data has been developed.

The overall sample of surveyed companies consisted of 205 enterprises, which were randomly selected from the list of active enterprises in the Republic of Moldova. Most of the respondents were company directors (managers) or owners. The data were disaggregated by the size of the interviewed enterprises and their location – in the capital city (67%) or outside the capital city (23%), according to the distribution of enterprises at national level. Most of the enterprises studied (69%) have been in business for more than 10 years, and only 3 units were incorporated within the past 3 years, falling in the start-ups category. As for the size of the studied enterprises, 44.9% were micro-enterprises, with up to 10 employees, 43.4% were small enterprises with 11 to 50 employees, and 11.7% of them were medium-sized and large enterprises, with over 50 employees.

The report will be used to help with CNPMs policy agenda, to stimulate debate and to

provide an evidence base for policy reforms for an environment more conducive to the promotion of sustainable enterprises in Moldova. In particular, the report will support the CNPM to:

- present solutions for the problems identified in the Report in order to enable an environment for the creation of sustainable enterprises in the Republic of Moldova;
- strengthen its role as strong policy actor capable of providing policy makers arguments that can contribute to the policy making process;
- effectively represent its members in the dialogue with relevant stakeholders;
- focus its Agenda on tangible policies that can reasonably expect government action by identifying the 'specific' key constraints to enterprise development and employment creation;
- present government with empirically sound proposals for policy or regulatory change;
- have proactive, constructive and time bound agenda attracting wide support and engagement.

Political elements

1. Peace and political stability

Peace and political stability are key conditions for the creation and development of sustainable enterprises. A three-party pro-European coalition government known as the Alliance for European Integration (AEI) has governed Moldova since 2009, following a disputed election and civil unrest. The main opposition party to the AEI is the Communist Party, which is less supportive of a strong European partnership, advocating rather for increased relations with Russia.¹ In 2009, Moldova experienced controversial and tense parliamentary elections where no party received enough seats to elect a president. Because the Communist Party failed to gain enough votes to appoint the President, the oppositional parties combined to form the AEI.² The elections were disputed and were followed by civil unrest in the country.³

One of the main challenges for political stability in Moldova is tension with Russia, specifically with regards to the eastern region of the Republic of Moldova, a thin strip of land along the border of Moldova and Ukraine. The official languages in Transnistria are Russian, Moldovan and Ukrainian, though tensions abound surrounding whether Moldovan should in fact be included.⁴ In 1992, this was the location of the Transnistrian War, when the region attempted to secede from Moldova, fearing that the country would reunite with Romania.

Following the violent outbreak in 1992, Russian troops arrived in the region to support the Transnistrians in defeating the Moldovan forces. The conflict ended in a cease-fire in the summer of 1992, when Russia signed a peace deal on behalf of the secessionist territory and was established as peacekeeper.⁵ Still today, Russia maintains troops in the region, a contentious point in peace talks.⁶

This unsettled conflict raises the country's risks in international financial and investment ratings. The impact the conflict has on the socio-economic situation on both banks of the Nistru (Dniester) has been identified by experts as a key factor that is slowing down the development of Moldova-Transnistria and that is exacerbating the levels of poverty and labour emigration. The foreign investment that could be available in connection with the 9th Pan-European Transport Corridor and other international transport corridors cannot be accessed currently without a joint agreement from Chisinau and Tiraspol, as these corridors pass through the right-bank of Moldova and Transnistria.⁷ The resolution of this conflict between Moldova and the secessionist territory was noted by the European Union in 2003 as being the single largest barrier to the country's political and economic development, as well as its fundamental cause of poverty.⁸

5 Pajalic, M. 2008. Capacity Building for Peace? The European Unions' Impact on Security Sector Reform in Moldova and Georgia. The University of British Columbia (Vancouver, Canada), April. Accessed 20 May 2013.

6 BBC. 2011.

7 Cristescu, R. and Matveev, D. 2011. Peace building and Conflict Prevention in Moldova: the role of the EU. Civil Society Dialogue Network of the European Commission.

8 European Union. 2003. Fifth Meeting of the Co-operation Council Between the European Union and the Republic of Moldova, 7432/03 (Presse 80). (Brussels), 18 March. Accessed 5 May 2013.

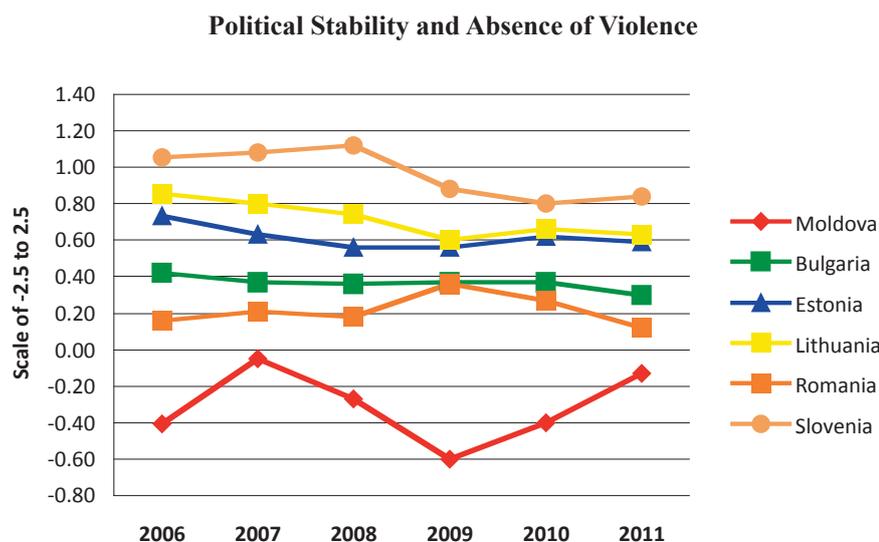
1 Institute for Security Studies. 2013. Moldova's political crisis. ISS alert issue, March. Accessed 4 May 2013.

2 Freese, Susan. 2010. Political Instability: Moldova's Struggle for Democracy. IREX, September. Accessed 4 May 2013.

3 Institute for Security Studies. 2013.

4 BBC. 2011. Trans-Dniester profile. BBC News. Accessed 24 May 2013.

Figure 1. Scores for political stability and absence of violence in Moldova and comparator countries, period 2006-2011



Note: Data on “Political Stability and Absence of Violence” assesses countries’ political stability on a scale from -2.5 to 2.5 where higher values correspond to better performance.

Source: World Bank, Governance Matters database.

In international comparison, Moldova fares quite poorly as far as political stability is concerned (Figure 1. Scores for political stability and absence of violence in Moldova and comparator countries, period 2006-2011) as reflected by negative figures from 2006-11, with some improvement from -0.6 in 2009 to -0.13 in 2011. Among the countries used for comparison, Moldova reflects the least political stability and absence of violence since 2006.

Despite the somewhat negative findings in regards to Moldova’s political stability, the country has made improvements in recent years. In 2013, the European Union Institute for Security Studies praised the country as potentially the best example of successful transformation under the EU’s Eastern Partnership. The EU has shown its commitment to the political and economic development of Moldova through significant time and resource investment.⁹ In addition, the Government of Moldova is aware of the close links between their economic and business development, and promotion of peace and political stability throughout the country.¹⁰

⁹ Institute for Security Studies. 2013.

¹⁰ United Nations. 2012. Statement by H.E. Mr. Nicolae Timofti, President of Moldova. UN (Republic of Moldova), 26 September. Accessed 27 May 2013.

It is worth mentioning here that, though the indicator also refers to violence, nevertheless such manifestations were not noticed after April 2009, when the political forces of pro-European orientation came to power. Although both political groups as well as the entire society are divided in two opposing groups – pro-Russian and pro-European – still in Moldova (without Transnistria) there aren’t any ultra-radical political forces, neither on the left political wing, nor on the right one. No radical social-political violent manifestations were noticed lately.

However, a new wave of political crisis followed in early 2013 when the governing alliance broke down and, as a consequence, the Government was dismissed. These political developments significantly affected the morale of Moldovan entrepreneurs, and reflected into the results of the EESE business survey, carried out during the same period. The absolute majority - 83.9% - of the participants who participated in the survey stated that the periods of political instability affected the development of Moldovan enterprises. It is interesting that this perception is more common among the newer enterprises compared to the older ones. Thus, 93.2% of the respondents from enterprises

established after 2005 declared to be affected by the country's political instability compared to 78.2% from those established until 2000.

At the same time, political instability was identified as the most problematic factor for the development of Moldovan enterprises (see Table 1). Such a perception is caused by the high politicization of Government institutions that are involved directly in business regulation, such as the State Tax Inspectorate, Customs Service, and others. Any change in the Government is reflected, as a rule, in changes of the management of these structures and in its regulations. This situation enhances the instability of the legislative and normative framework. The dynamics of the changes in regulations make it impossible to respect the newly appeared norms, which occasionally do not get published in the Official Monitor of the Republic of Moldova. In this case, it becomes necessary to create tougher and unique

regulations for the competent institutions which hold inspection and control functions, simultaneously with personal or institutional accountability for the violation of these rules. For example, according to the Agreement of the recently established Pro-European Government Coalition, the deputy ministers should come from the same party as the ministers. Hence, if a ministry is given to another party, then the deputy ministers will be changed together with the minister and, basically the political reshufflings will reach as far as the heads of divisions and other decision makers.

However, in spite of the Government's instability or of other problematic factors within the business environment, the entrepreneurs remain quite optimistic about the evolution of their business this year - 42.4% of the respondents estimate that it will be better than in 2012 and only 26.3% believe it will be worse.

Table 1. The top most problematic factors for business development in the Republic of Moldova*

	Factors	Cases	% of Total N**	Sum	% of Total Sum	Total %
1	Political instability	86	42.0	66.3	32.3%	100
2	High fiscal burden	76	37.1	55.5	27.1%	100
3	Shortage of properly trained labour force	58	28.3	44.3	21.6%	100
4	Poor access to finance	46	22.4	39.3	19.1%	100
5	Corruption and bribery	41	20.0	31.0	15.1%	100
6	Extended informal ("shadow") economy	41	20.0	30.5	14.9%	100
7	Macroeconomic situation	38	18.5	28.5	13.9%	100
8	Inefficient Government bureaucracy	35	17.1	27.5	13.4%	100
9	Poor governance	34	16.6	25.5	12.4%	100
10	Underdeveloped infrastructure	32	15.6	24.5	12.0%	100
11	Inequitable fiscal management	37	18.0	23.8	11.6%	100
12	Underdeveloped business culture / contractual irresponsibility	30	14.6	21.5	10.5%	100
13	Inappropriate foreign exchange policies	14	6.8	10.5	5.1%	100
14	Inappropriate business ethics	8	3.9	5.8	2.8%	100
15	Difficulty to get the needed licenses, permits and authorizations	5	2.4	3.3	1.6%	100
16	Overly-restrictive Labour Code	3	1.5	2.8	1.3%	100

Note: * - The first choice - 1 point; the second - 0.75 points; the third - 0.5 points;) ** - N total = 205
Source: the EESE business survey results;

2. Good governance

Good governance, absence of corruption and efficient institutions foster entrepreneurship and promote private sector growth and development. According to the 2012-13 WEF's Global Competitiveness Report, corruption is the greatest challenge to doing business in Moldova.¹¹ Since 2009, the Government of Moldova has launched significant reforms in the areas of democratization, freedom of the media, economy, policy, and education. However, two of the most problematic factors still hindering growth in Moldova are corruption and judicial reform.¹² The prevalence of corruption and lack of transparency throughout public institutions especially, stifle economic growth and enterprise development in the country.¹³

In 2012, Parliament passed the National Anticorruption Strategy for 2011-13, intended to increase transparency of public institutions and public finances, encourage investigative

11 World Economic Forum. 2012. The Global Competitiveness Report 2012-2013. WEF (Geneva, Switzerland). Accessed 4 May 2013.

12 Institute for Security Studies. 2013.

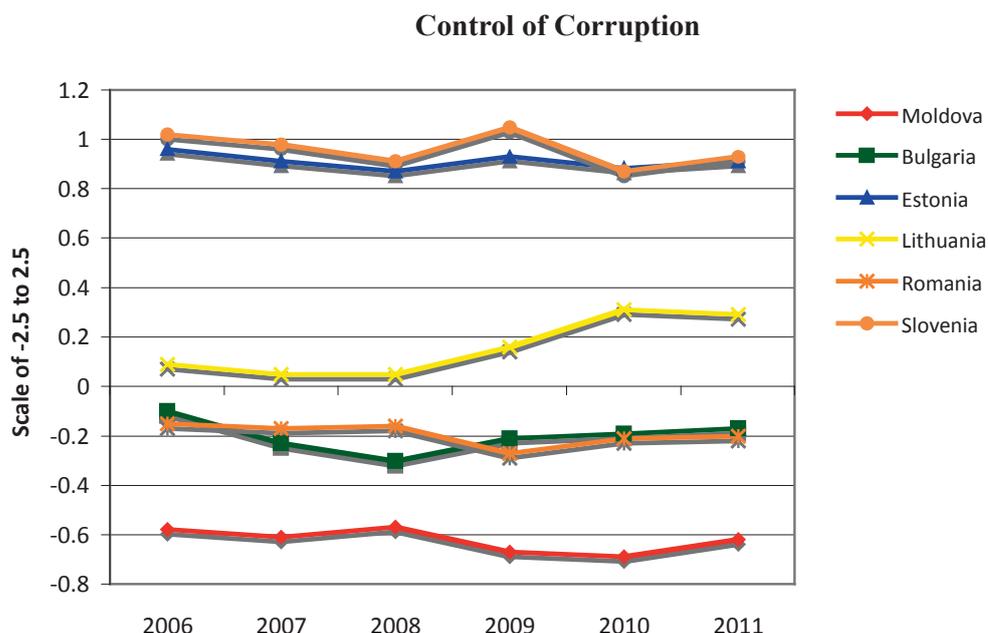
13 Freedom House. 2012a. Nations in Transit 2012 – Moldova. Nations in Transit 2012. Accessed 4 May 2013.

journalism, and further protect judges, prosecutors, and shield officers from the Centre for Combating Economic Crimes and Corruption (CCECC) from political pressure. The country relies on the National Anti-Corruption Centre to investigate corruption allegations, and while nominally independent, the Centre has received critiques for having close ties to one of the parties forming the ruling coalition.¹⁴

Based on secondary data, one can say Moldova does not perform well in this area. The international indicator "Control of Corruption" (Figure 2) measures the extent to which public power is exercised for private gains and the extent to which the state is captured by elites and private interests, on a scale from -2.5 and 2.5 where higher values reflect better performance. Moldova performs notably worse than the other countries used for comparison, reflecting a level of -0.62 in 2011, while the second poorest score in the same year, that of Romania, was -0.2. Slovenia and Estonia registered the highest scores at 0.93 and 0.91 respectively in that year.

14 Institute For Security Studies. 2013.

Figure 2. Degree of control of corruption in Moldova and comparator countries, period 2006-2011

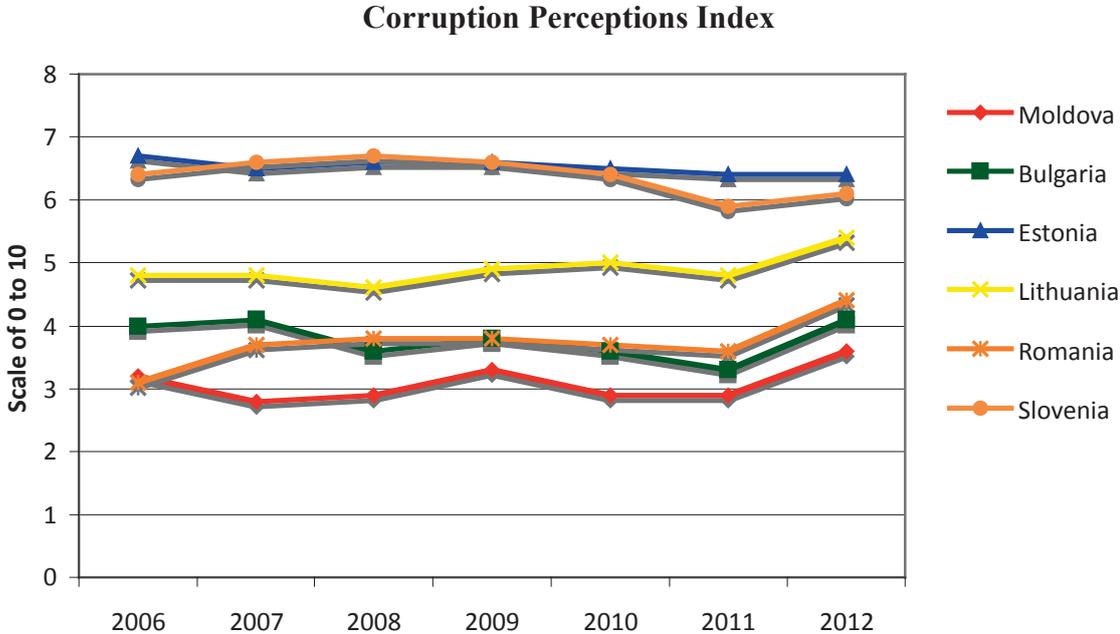


Source: World Bank, Governance Matters database.

The “Corruption Perceptions Index” reflects a similarly negative picture (Figure 3). On a scale from 0 (“highly corrupt”) to 10 (“highly clean”), Moldova has slightly improved since 2007, moving from 2.8 in that year to 3.6 in 2012.

Nonetheless, Moldova registered the lowest score among the six countries compared with in the latter year. Bulgaria registered the second lowest score at 4.1, while Estonia registered the highest at 6.4.

Figure 3. Corruption perception index in Moldova and comparator countries, period 2006-2012



Source: Transparency International

Another major hindrance to economic growth in Moldova is the relationship between corruption and the informal economy. It is estimated that a substantial portion of the labour force is involved in informal market and corruption-related economic activities, and that the generated unrecorded incomes are non-negligible.¹⁵The generated incomes are unequally distributed, increasing the gap between rich and poor, as corruption only functions to exaggerate social inequity and to target the most vulnerable social groups for exploitation. The negative economic impact of this relationship includes increasing transaction costs, especially with regards to small business activities and the increasing numbers of payments to obtain licenses; discouraging investment and innovation; cost increase and worsened quality of public

projects caused in part by the evasion of tenders from competitive procedures; inequity and unfair competition; reduced economic efficiency; and macroeconomic instability, specifically regarding the country’s vulnerability to the financial crisis.¹⁶

While Moldova shows marginal improvement in government services and activities over time, it still performs comparatively poorly (Figure 4). The indicator “Government Effectiveness” measures the quality of public services, the capacity of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies. In a range of values from -2.5 to 2.5 with higher values indicating better governance, Moldova records low values below 0 over the period 2006-11. Since 2007, Moldova has seen some

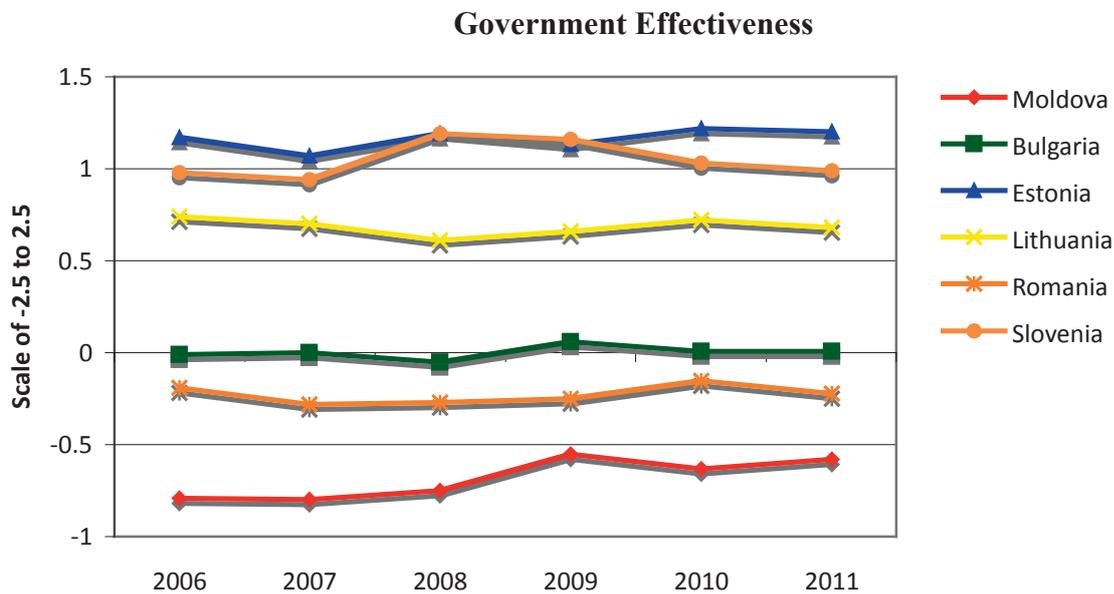
15 Carasciuc, L. 1999. Corruption in Moldova: Macroeconomic Impact. Center for Strategic Studies and Reforms (Moldova). Accessed 27 May 2013.

16 Ibid.

improvement in this regard, moving from -0.8 in that year, to 0.58 in 2011. While Romania and Bulgaria also register low negative values

over the period 2006-11, Moldova consistently performs the poorest of the six countries used for comparison.

Figure 4. Government effectiveness in Moldova and comparator countries, period 2006-2011



Source: World Bank, Governance Matters database.

“Voice and Accountability” indicator measures the extent to which citizens participate in selecting their government, as well as freedom of expression, freedom of association and a free media. On a scale from -2.5 to 2.5 with higher values indicating better performance, Moldova is the only country of the six used for comparison that maintains values below 0 over the period 2006-11. Nonetheless, the country has seen a positive improvement in this area over time, moving from -0.27 in 2006 to -0.02 in 2011.

The EESE business survey confirms most of the trends identified through the analysis of secondary data. We present below the most relevant findings of the survey, for each component of the “Good Governance” pillar.

Trust in the state policies

More than 78% of the leaders of the respondent firms regarded the legal and regulatory framework of the Republic of Moldova as failing to foster the operation and development of enterprises, compared to the 14.6% who regard it as supporting the

development. Indeed, since 2009, a series of incentivizing provisions for business were removed from the national legislation (income tax exemption for newly created enterprises, reducing the share of state social insurance contribution for the employees who raise the distribution towards the State Social Insurance Budget etc.). According to the opinion of the business environment, similar provisions are yet to be re-included in the legislation, as methods to reduce the share of underground economy and to extend the fiscal basis, accepting tougher sanctions for their violation. There are also negative opinions regarding the “interpretation and practical implementation of laws and regulatory documents” in Moldova, which is seen as non-encouraging for 66.3% respondents. Around other 30% of respondents declared that they are not negatively affected by the practical enforcement of laws. In spite of legal provisions stating that the competent body for the interpretation of legal norms is the Parliament, the situations when the public authorities through letters, instructions and orders intervene in this process are frequent.

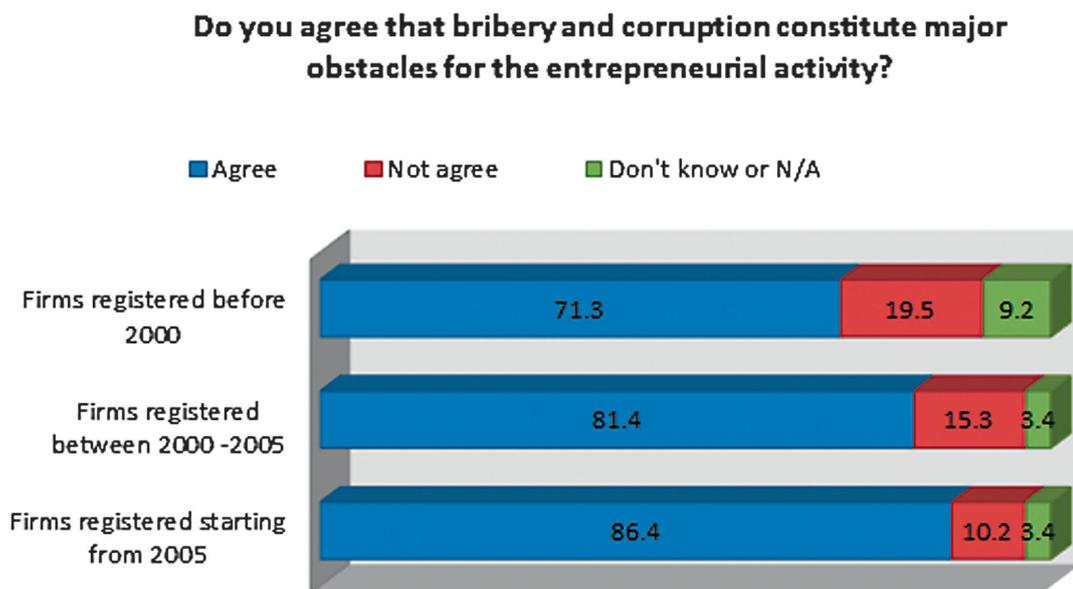
It is also true that the legislative body, in spite of several addresses to this subject is unable to deliver timely responses in to all requests. Measures to consolidate the capacities of the Parliament in this regard are paramount.

Corruption and bribery

Again, more than 78% of respondents claim that corruption and bribery are major barriers for the business activity in Moldova. This

opinion is mainly shared by businesspeople from Chisinau, rather than those outside the capital city, specifically those from new enterprises, established after 2005. This is absolutely logical if we take into consideration that the concentration of businesses is larger in Chisinau municipality compared to any other communities in the Republic of Moldova.

Figure 5. Bribes and corruption as major obstacles for the entrepreneurial activity



Source: EESE sociological results

This highly spread perception of corruption also influences the opinion regarding the Government's efforts to reduce it. Thus, 87.3% of respondents state the Government is not sufficiently dedicated to combating corruption, while other 7.3% assess it as being sufficiently engaged. The efficiency of the competent bodies is seen similarly: 52.7% mention that the Government bodies with competencies in this area react inefficiently when they receive complaints from enterprises. Other 16.1% of respondents consider that competent bodies are efficient in combating corruption through cooperation with the enterprises.

All these perceptions related to the omnipresence of corruption and the inefficiency of the responsible bodies

in combating corruption are fed by the experience of the business people, also by the severe lack of cases that reach the courts, and the default of important convictions on the articles of the Criminal Code. The lack of relevant and sounding results in combating this well-known phenomenon, which is dangerous for the country, suggests the lack of willingness in this regard, both at the governmental and political level. The decision makers are those who benefit the most from acts of corruption and thus they are not willing to give up these substantial benefits, even if they are obtained against the law and to the detriment of the enterprises, citizens and the national economy.

About one third of respondents (33.2%)

claims that enterprises similar to theirs have to bribe “frequently” or “systematically” in order to solve various problems in their relations with supervisory authorities. This opinion is shared mainly by micro-enterprises (up to 10 employees). At the same time, for 41.4% of

respondents, bribing is the only way to avoid the “administrative barriers” in the Republic of Moldova. This opinion is also wider spread among micro-enterprises, as well as enterprises located in the capital city and start-ups.

Table 2. Answers’ Distribution to the question “Do you agree that bribery is the single option to overcome the administrative obstacles in the Republic of Moldova?”, depending on the company size, %

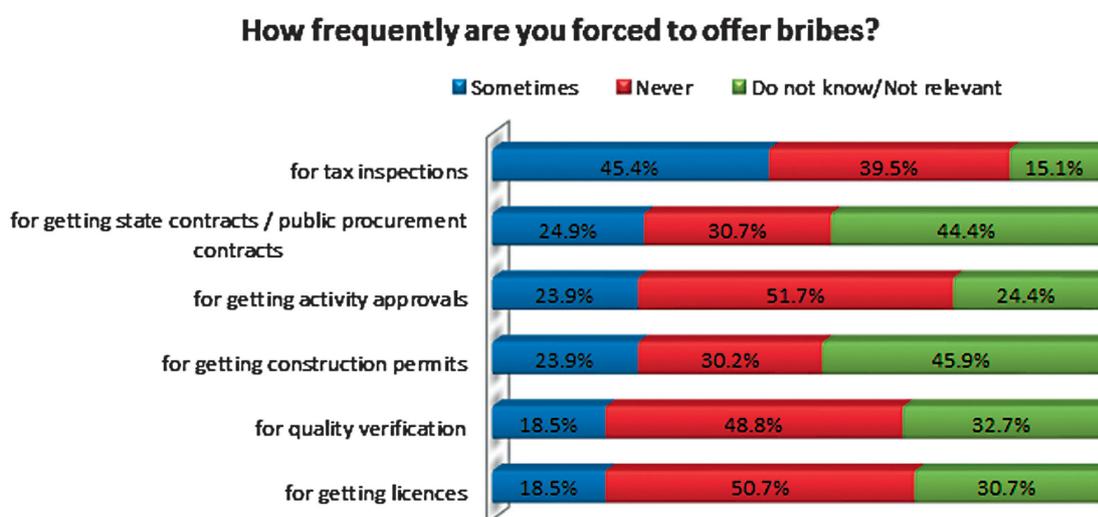
Number of employees		Agree	Do not agree	Do not know/Not relevant	Total
Firms with under 10 employees	Count	45	45	2	92
	%	48,9	48,9	2,2	100,0
Firms with 11-50 employees	Count	33	45	11	89
	%	37,1	50,6	12,4	100,0
Firms with more than 50 employees	Count	7	15	2	24
	%	29,2	62,5	8,3	100,0
Total	Count	85	105	15	205
	%	41,5	51,2	7,3	100,0

Source: EESE business survey results

The analysis of some real cases when the businesspeople are forced to offer bribes revealed much more pessimistic opinions. In the figure below we can notice that the share

of those who refused to express their opinion is higher compared to those who recognized the phenomenon.

Figure 6. Answers’ distribution to the question: “In which of the situations described below, the companies similar to the one you lead are forced to offer bribes (or to offer presents) and how frequently?”



Source: EESE business survey results

Thus, we conclude that businesspeople shall resort to bribes especially when they are controlled by tax authorities. The open discussions with respondents revealed that the most frequent claims made by tax inspectors refer to the erroneous calculations of the taxes by the enterprise, and that is why in such situations the accountants have to “mellow” them with “attentions” and presents to avoid the formal penalties. Regarding the presents or the so-called various “attentions” - most of the respondents tend to view them rather as “sign of benevolence” than a bribe whereas the accountants’ errors, as we will see in the further analyses, are caused by the complexity and, in particular, instability of the tax regulations.

In the other situations listed in the questionnaire, the frequency of bribes and presents falls within the range of 18-25% of the cases.

Corruption and bribery ranks the fifth in the top of the most problematic factors for the development of Moldovan enterprises, with

almost the same score as “informal economy”.

The analysis of the supervision authorities’ visits during 2011 to the surveyed enterprises (figure 7) reveals that 64.4% of them were visited by the anti-fire inspection at least once and 1.3 times on the average; 60.5% of enterprises were visited by tax inspector 1.77 times a year, on the average. The staff of national anti-corruption centre honoured with their visit 16.6% enterprises during the year, 1.32 times on average. It is interesting that respondents appreciate very seldom that these visits would create considerable constraints for them: only 7.3% of enterprises regarded the tax authorities’ visits as a constraint. As one of the respondents put it, “the inspectors visit the enterprise to discover problems that cannot be noticed from the office, but when the errors or irregularities are discovered by the managers themselves, it takes a lot of time to make an appointment with the specialists of the tax inspectorate in order to solve the emerged problems!”

Figure 7. Frequency of inspections (2012) by various supervisory institutions



Source: EESE business survey results

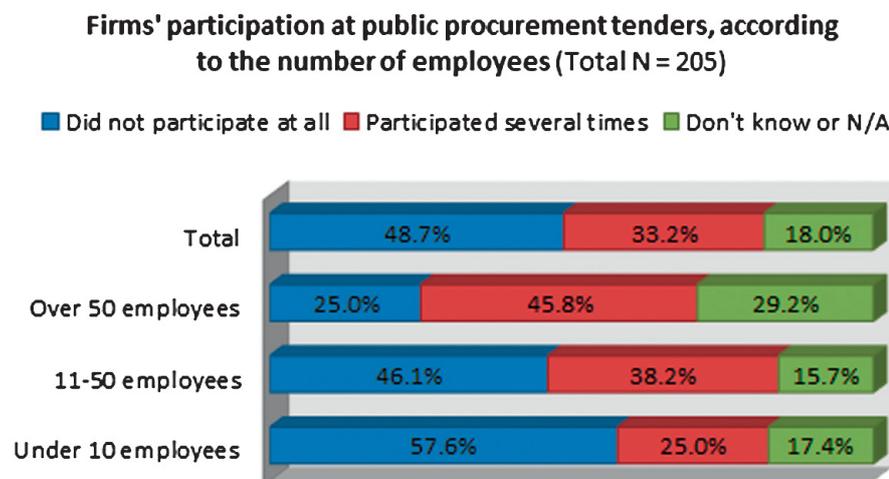
Public procurement

Public procurement is a very specific area, where the public sector meets the private one. Almost 49% of the surveyed businesses said they never participate in the public procurement tenders.

Only 33.2% declared that they participated in public procurement tenders more or

less frequently during the past years. It is interesting that mainly the larger and the older enterprises participate in these tenders, rather than the micro-enterprises and the start-ups. This can be caused by the banking guarantees, which are very imposing, as well as the excessive documentation requested by organizers in order to participate in tenders.

Figure 8. Participation of firms at public procurement tenders, depending on the number of employees



Source: EESE business survey results

In order to direct corruption payments to public officials, subcontracts, procurement orders or consultancy contracts or their employees or relatives, are often used. These methods were used according to 31.2% respondents, and 19.5% state they are used frequently. This reality is shared more frequently by respondents from Chisinau enterprises, rather than the ones outside the capital city.

At the same time, 39% of respondents perceive the public tenders as non-transparent and only 12.2% of them believe that the public tenders are usually won by the best bidders, without any illegal payments to benefit the responsible officials.

3. Social dialogue

Social dialogue, together with freedom of association and the right to collective

bargaining is fundamental for the achievement of effective, equitable and mutually beneficial outcomes for ILO constituents and for society at large. In Moldova, employers' national and international interests are represented by the Confederatia Nationala a Patronatului din Republica Moldova (CNPM), which was established in 1996 and is a member of the International Organization of Employers (IOE). The CNPM unites five founding employers' organizations.¹⁷ Today, with its some 30 members (collective and individual), CNPM represents employers hiring 90 per cent of the Moldovan workforce. On the trade unions' side, the largest trade union association in the country is the General Federation of Trade Unions of Moldova, which includes 25 industry federations. It inherited its position

¹⁷ <http://www.cnpm.md/rom/>.

and considerable resources from the pre-independence system and remains the dominating force in industrial and budgetary sectors.

Officially, a National Commission for Consultations and Collective Bargaining exists in Moldova, which is a tripartite Council that convenes on a quarterly basis or whenever necessary. The Council's main function is to provide a forum for tripartite discussions and in addition, to serve as the vehicle through which social partners can submit draft laws regarding economic reform and maintenance of social peace. According to the social partners' opinion, the authority of this Council is undermined by the legislation, which does not grant many powers to this institution. Moreover, given the fact that it is led by the Government, the Council did not function during the recent political deadlock. Nevertheless, some sectoral working groups created by the Council managed to function despite the political situation. A relevant example is the working group created after the initiative of the employers' association on the issues related to the labour legislation. As a result of these negotiations, a series of amendments to the Labour Code were elaborated, which are being currently examined by the Government and the Parliament.

In Moldova, there are a many sector councils for collective negotiations and bargaining, although in some sectors the trade unions lack negotiation partners. As these councils are led by the representatives of line ministries, they are not very efficient and often the issues discussed at sectoral councils are not taken into account by the National Council. In 2010, at the branch level, only 18 out of 30 trade unions signed collective agreements, at the territorial level only 18 out of 34 districts had structures of social partnership, and the territorial commissions had managed to sign only 8 Agreements.¹⁸ However, interviews with

18 Ciurea, C. 2011.

CNPM's management revealed that indeed, in the transportation, agriculture, construction and ICT consultations and collective negotiations took place recently.

The worst situation is attested at the local level where local public authorities do not take an active role in the social dialogue, and the companies are not interested in joining the employers' associations.

Annually, around 1300 collective work contracts are reported, to be signed at the level of economic unit. Their existence is largely due to enterprises which appeared in the pre-independence period. However, due to the provisions in the labour legislation, which extend the validity of these collective agreements to "no end," the number of "live collective agreements" is considerably smaller.

Unfortunately, secondary data on social dialogue in the sub-region tends to be scanty. Specifically, for the "Enterprises Belonging to Employer Organization" rate and "Collective Wage Bargaining Coverage" rate, there is no data on Moldova.¹⁹ The "Trade Union Density" rate measures the proportion of trade union members as a percentage of total employment. Moldova outperforms both countries for which data is available, Estonia and Romania, in 2007, with 26.8 per cent of the total non-agricultural labour force holding trade union membership, compared to 21.4 per cent in Romania and 6.9 per cent in Estonia. "Cooperation in Labour-Employer Relations" determines whether labour-employer relations are confrontational or cooperative on a scale from 1 to 7 with higher values indicating more cooperation. Moldova performs notably well in this area, outperforming Bulgaria, Romania and Slovenia in 2012, with a value of 4.2. The world average for the same period was 4.3.

According to the results of the EESE business survey, 17.1% of the sampled enterprises

19 The "Enterprises Belonging to Employers' Organizations Rate" measures the number of enterprises which are members of employers' organizations. The "Collective Wage Bargaining Coverage Rate" measures the number of employers that belong to an employers' organization.

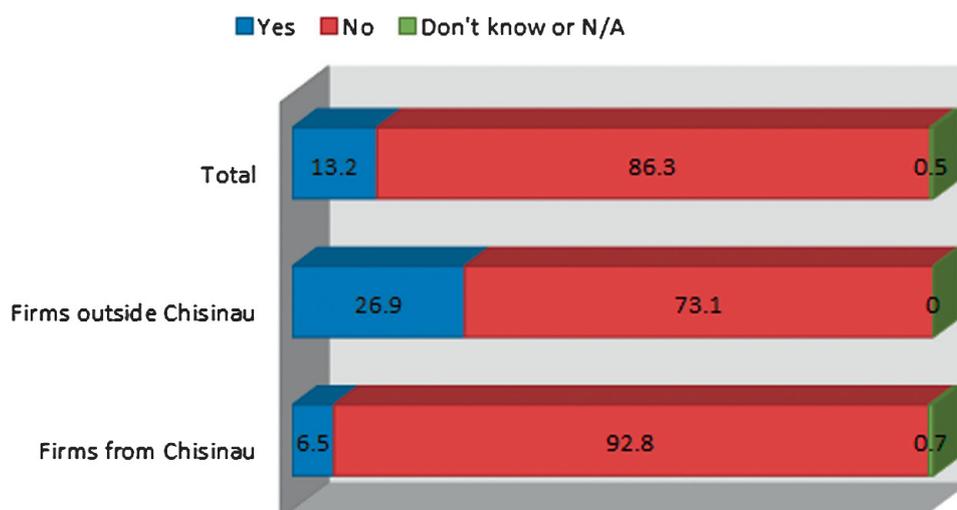
are members of an employers' association, predominantly located outside the capital city. At the same time, there is an indirect relation between the number of employees in the enterprise and its membership in an employer's association. Thus, only 7.6% of enterprises with up to 10 employees are members of employers' associations, 22.5% of those with 11-50 employees and 33.3% of those with over 50 employees.

It should be mentioned that CNPM did not have the purpose to evaluate the number of members from the sample, but only the association level with business environment structures. It is also true that most often the employers' associations are joined by medium and large enterprises, which can afford paying the membership fees. The participation rate in these associations is larger in municipalities and decreases proportionally to the distance from them. Currently, the CNPM makes efforts to create and revive some territorial employers' associations.

There is a similar situation with membership to trade unions: the staffs of only 13.2% of the surveyed enterprises are reportedly members of trade unions. It is interesting that about 2/3 of these enterprises are located outside Chisinau, which is an indication that trade unions have a higher presence in the enterprises outside the capital city than in the city. However, while interpreting these data, we must consider some particularities of the sample and of the survey. The fact that in a sample of randomly selected 205 firms, 17.1% have self-declared as being members of an employers' association, which slightly exceeds the national level, can be explained by the interest of the members of employers' association to take part in the survey, given the fact that it has been commissioned by CNPM. Overall, one out five firms randomly chosen from the list accepted to participate in the study. Another aspect is related to the absolute size of the groups (too small) included in these questions in order to consider the trends identified as valid, by crossing variables.

Figure 9. Membership in trade unions of the enterprise staff, by the enterprise location

Membership in trade unions of the enterprise staff, by the enterprise location



Source: EESE survey in Moldova

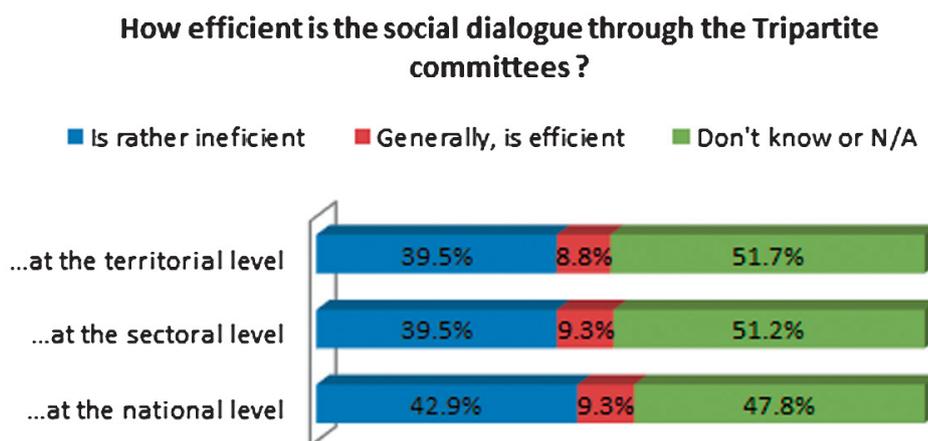
The fact that they are not members of employers' association or trade unions does not prevent enterprises from using social dialogue, when necessary. Thus, 44.9% of respondents state that they use social dialogue whenever necessary, other 17.6% use it periodically or seldom. But there are many enterprises - 31.2% - which never use this instrument.

When required to appreciate how efficiently is social dialogue carried out through the tripartite committees (employers' associations - trade unions - authorities), an important share - 39-43% - of the interviewed businesspeople believe that this is rather inefficient, both at the national level, and at sectoral and territorial levels. The fact that every second respondent avoided expressing his/her opinion on this issue, proves a strong lack of interest in social dialogue, regardless of its level (national, sector and territorial). We may hence conclude that the Moldovan entrepreneurs are either not interested or, even if interested, regard the work of tripartite committees as inefficient in four of five cases. A widespread opinion among Moldovan businesspeople -

confirmed by the open discussions – is that their requirements and viewpoints on how to settle certain problems related to the quality of business environment are totally neglected by authorities, in particular by the central ones. This opinion is greatly reflected in their appreciation of the cooperation between the Government and their dialogue partners: about two thirds of respondents (65.9%) regard it as insufficiently cooperative and only 2.9% of them say that the Government is “quite cooperative”.

This is also confirmed by the fact that all the initiatives to reform the National Commission for Consultations and Collective Bargaining by the social partners (employee associations and trade unions) through changes to the 245 Law of 21.07.2006 “regarding the organization and the functioning of the National Commission for Consultations and Collective Bargaining, of commissions for consultations and collective negotiations at the branch and territorial level” and the change of leadership paradigm of this structure is blocked by the Government.

Figure 10. Distribution of answers to the question “How efficient is social dialogue through the Tripartite committees (employers’ associations - trade unions - authorities)?”



Source: EESE business survey

This perceived inefficiency of social dialogue with the authorities is easy to understand, given that 66.3% of the respondents claim that they were never consulted by authorities during the decision-making process. However, 15.1% of businesspeople claim that they

are consulted quite frequently; hence a certain public-private dialogue at the level of enterprises exists. This, obviously, also depends on the openness or interests of the business owners or managers.

Economic elements

1. Enabling legal and regulatory environment

Well-designed and clear regulations, including those that uphold labour and environmental standards, are good for the promotion of start-ups and enterprise development. They facilitate formalization and boost systemic competitiveness. The lack of transparency and the cumbersome bureaucracy in Moldova often hinder private enterprise formation and operation, and, even though starting a business has been made easier in recent years, the licensing process is still highly time-consuming.²⁰

Moldova has made improvements in this regard over time. In terms of support to SMEs, Law No. 206-XVI of July 2006 on supporting the SME sector sets out the main provisions governing SMEs and the Organisation for the Development of SMEs (ODIMM), as the organization in charge of supporting SMEs was established already in 2007. Most recently a new draft law on SMEs from December 2012 has been issued by the Ministry of Economy, which *inter alia* foresees an advisory council for SMEs, which is due to report annually to Government on its work. The draft law further

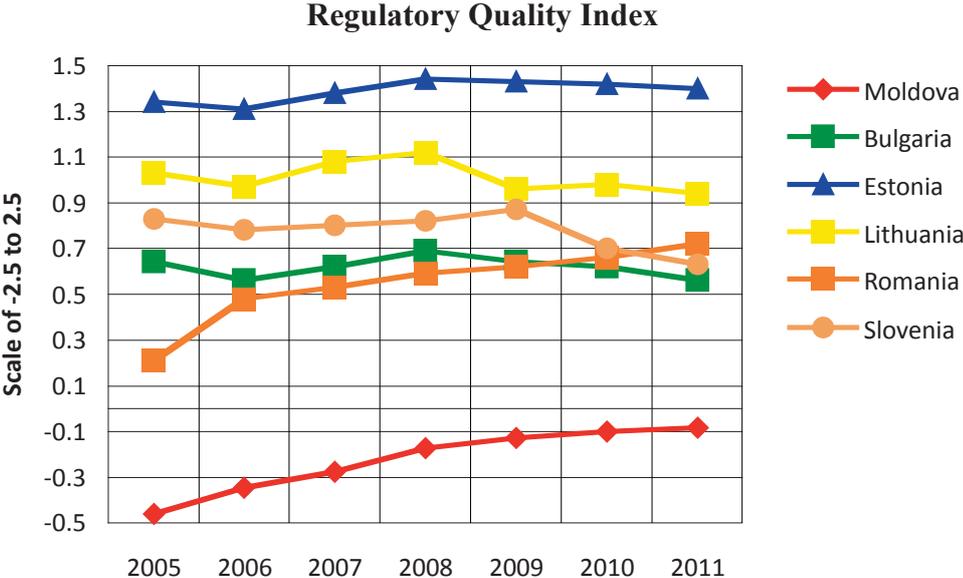
allocates 0.3% of GDP annually to support SMEs, intends to establish a network of business angels and gives preferential treatment to SMEs in government procurement (20% of total government procurement with an exemption from participation guarantees for SMEs). The draft law also foresees the establishment of a Credit Guarantee Fund and names ODIMM to manage the fund (annually replenished by government and donor resources).²¹

According to secondary data, the country consistently reflects the weakest government regulation and capacity to prevent corruption among all countries used for comparison. The “Regulatory Quality Index” measures the ability of a government to provide sound policies and regulations for the promotion of the private sector on a scale from 2.5 to 2.5, with higher values indicating better performance. Moldova’s performance in this regard has been poor and below 0, though the country has experienced some improvement in recent years, shifting from 0.46 in 2005 to 0.08 in 2011 (Figure 11). Among the countries used for comparison, Moldova performs the poorest, where the next lowest score in 2011 was 0.72 in Romania, and the highest score was 1.40 in Estonia.

20 The Heritage Foundation. 2013.

21 Draft Law in Romanian on Ministry of Economy Website

Figure 11. Regulatory quality index in Moldova and comparator countries, period 2005-2011

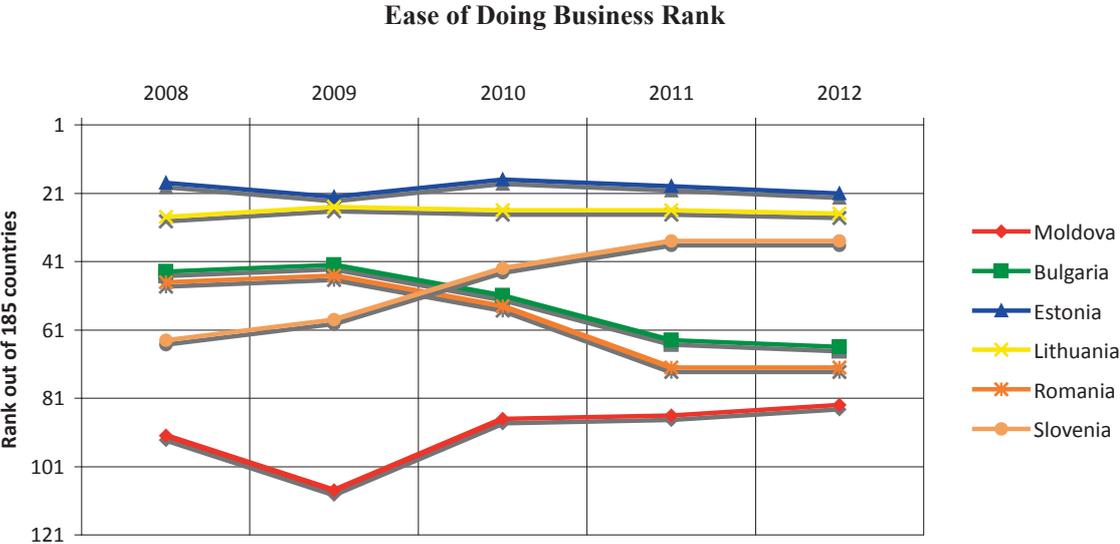


Source: World Bank, Governance Matters database

The “Ease of Doing Business Index” ranks economies from 1 to 185, where a higher ranking reflects a regulatory environment that is less conducive for business operations. This index includes averages for 10 different areas. Though Moldova is ranked relatively low at 83 out of 185 countries in 2012 (Figure 12), it only takes 9 days to start a business in Moldova, compared to 23 days in 2007 and 15

in 2008. Comparatively, in 2011 it took 22 days in Lithuania, and 6 in Slovenia. Data also show that Moldova has improved in this regard over time, moving up the ranking from 92nd place in 2008. Nonetheless, relative to the countries used for comparison, Moldova was the lowest ranked in 2012. Romania is the next lowest at 72, while Estonia ranks the highest of the group on 21st position the same year.

Figure 12. Ease of Doing Business ranks for Moldova and comparator countries, period 2008-2012



Source: World Bank, Doing Business project

The “Starting a Business Index” records the officially required procedures to start and operate an enterprise and ranks countries accordingly. Moldova’s rank in this regard worsened from 2011 to 2012, moving from 82 out of 185 countries, to 92 next year. All countries used for comparison also fell in the ranking somewhat during this period. Lithuania reflects the poorest performance of the group in 2012 at 107, but relative to the other four countries, Moldova ranks low on the index.

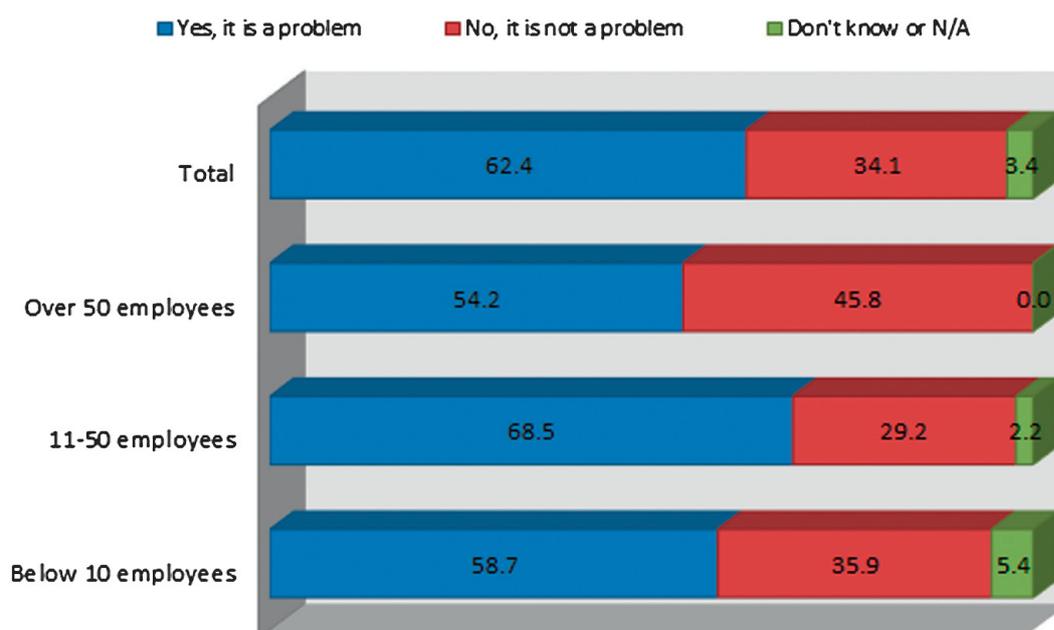
The EESE survey analyzed in great details the legal and regulatory framework, and found they are partly in line with what previous secondary data suggest, but also partly differ. We present below the main results of the survey for this component.

Overall regulations

The quality and functionality of the Government regulations depend significantly on their clarity and stability for the implementers

and on the extent to which they are complied with by the enterprises management. More complex and unstable regulations require more time and professional qualified efforts from the part of the management of enterprises. Thus, 62.4% of managers or owners of the surveyed enterprises believe that the time spent to comply with the Government regulations is a major problem for the enterprise. This problem is even worse for the enterprises located outside Chisinau (71.6% compared with 58.0% of the enterprises located in the capital city) perhaps due to the more acute shortage of qualified specialists and more limited access to specialized information and services. In this context is relevant to mention that the Republic of Moldova is in the stage of transferring to European law, including to the one that aims at business enterprises, that is why the problems caused with complying with these unstable government regulations will perpetuate for a while.

Figure 13. Distribution of answers to the question “Is the time spent for complying with Government regulations a major problem for Moldovan enterprises?” by the enterprise size



Source: EESE business survey

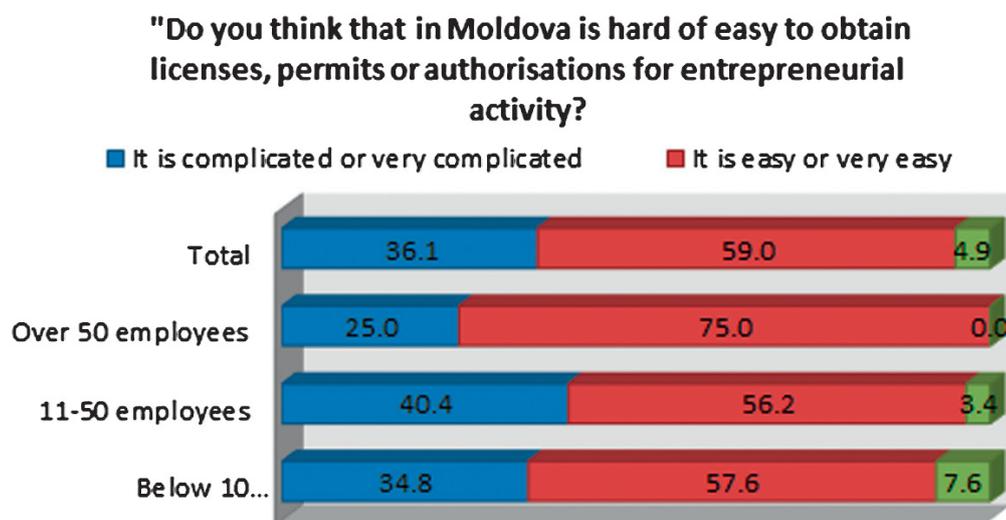
Licenses, permits and authorizations

Although Moldova has the worst position of all comparator countries for the “Ease of Doing Business” indicators, almost 60% of the interviewed businesspeople believe that in Moldova it is quite easy to obtain licenses, permits and authorization for businesses and, at the same time, 63.4% of respondents state that the general rules for issuing licenses,

permits and authorizations in Moldova meet the minimum standards of transparency and clarity. These favourable perceptions could also be due to the implementation of the one-stop shop for the entrepreneurial activity, after the approval by the Parliament, in July 2011, of the respective law.²²

²² Law no. 161 of 22.07.2011, regarding the implementation of the one-stop shop in conducting entrepreneurial activity.

Figure 14. Distribution of answers to the following question “Do you think that in Moldova is hard or easy to obtain licenses, permits or authorisations for entrepreneurial activity?”, depending on the number of employees, %



Source: EESE business survey

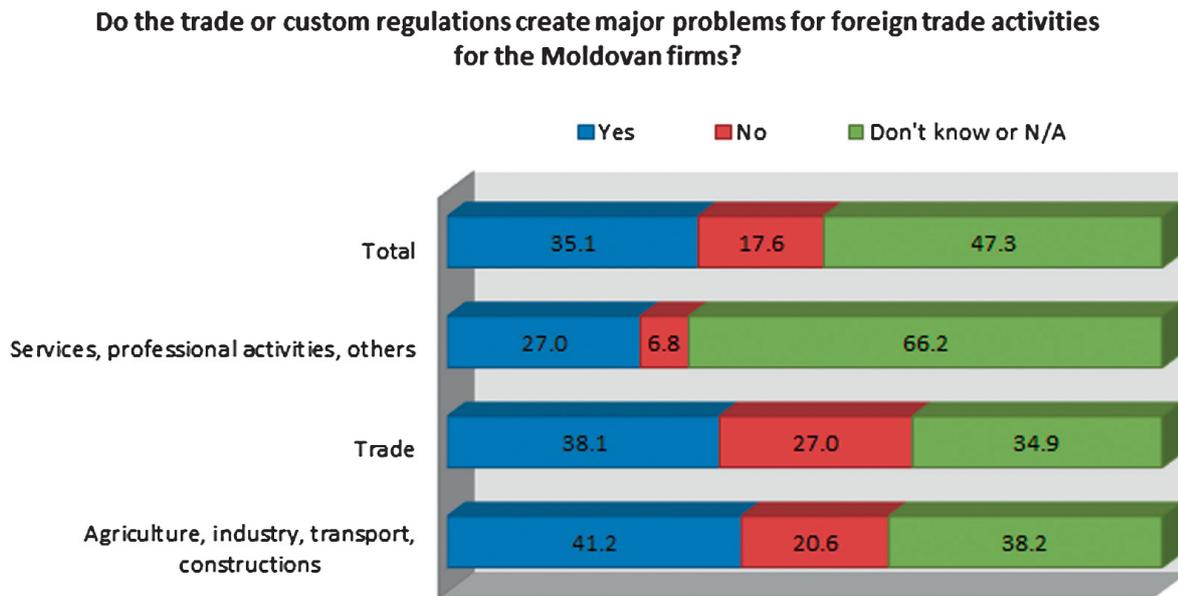
For 36.1% of respondents, in Moldova it is quite complicated to obtain licenses, permits and authorizations. This opinion is more frequent among the enterprises established after 2005, as well as among the small enterprises, with 11-50 employees.

Fewer respondents – 49.1% - believe that *authorities apply the rules uniformly and impartially for all enterprises* in Moldova, when it comes to issuing licensing, permits and authorizations. However, 34.1% of the interviewed businesspeople have an opposite opinion.

According to 35.1% of the interviewed businesspeople, the Moldovan trade and customs regulations pose important

problems for the international trade. Only 17.6% of respondents do not perceive these regulations as problematic. We note that 47% of respondents have not expressed their view on this. Supposing that only those who have international trade activities have expressed their views (it is not possible to identify and to group the enterprises researched according to this criteria – involvement/non-involvement in international trade), it results that about 2/3 of them consider that commercial and customs regulations create important difficulties for conducting international trade. “Services, professional activities and others” are the least affected in this regard.

Figure 15. Distribution of answers to the question “Do the trade or custom regulations create major problems for foreign trade activities to the Moldovan firms?” depending on the type of activity, %



Source: EESE business survey

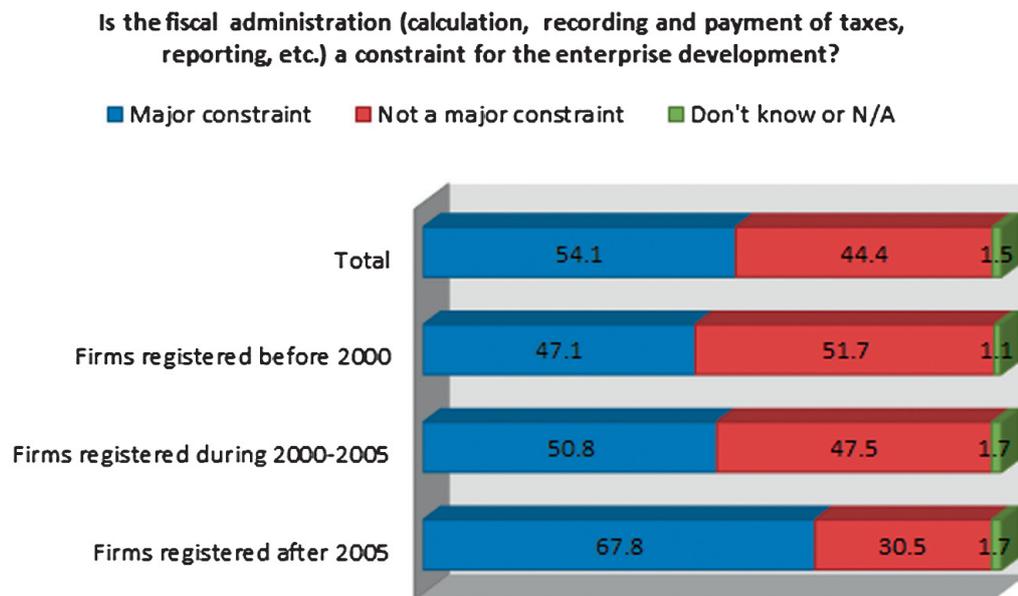
The process of obtaining certificates of origin and other documents necessary for the export of goods has been regarded as difficult by 20% of respondents, while other 65.4% have not expressed their views on this. For only 18.5% of the interviewed it is difficult to obtain the necessary documents for import of goods, while other 31.7% believe this is not a very complex procedure. *Obtaining licenses, permits and authorizations* ranked 16th of all 17 factors that were included in the top of the most problematic factors.

Hence, the outcomes of the EESE survey do not confirm some of the indicators estimated by the World Bank in this area, in particular the “Ease of Doing Business Rank”, used above for comparison with other countries.

Payment of taxes and mandatory insurance contributions

The fiscal administration, including the calculation and recording, payment of taxes, reporting, etc. is an important constraint for the development of enterprises in the opinion of 54.1% of sampled entities. However, for 44.4% of them the fiscal administration is not a very stressing constraint. Correlative analysis of data revealed that the distribution of this attitude is influenced significantly by the incorporation year of the enterprise. Thus, enterprises established after 2005 are stressed 20% more by the tax administration compared with enterprises established before 2000, of which only 47.1% regard it as an important constraint. The size and location of the enterprise and their type of activity have not influenced the distribution of these opinions at all.

Figure 16. Distribution of answers to the question “Is the fiscal administration (calculation, recording and payment of taxes, reporting, etc.) a constraint for the enterprise development?” by the year of establishment



Source: EESE business survey

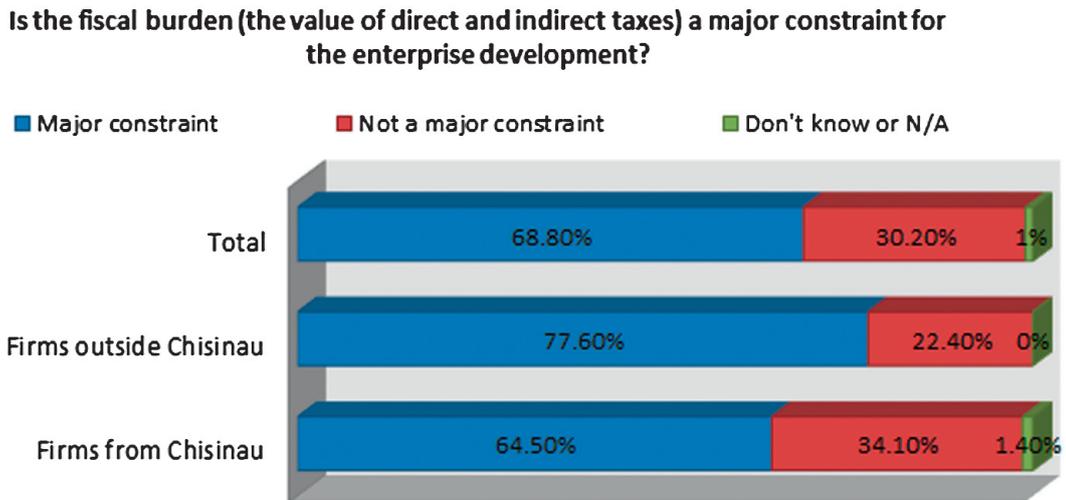
According to EESE survey results, the “tax administration” ranked the 11th in the top of the most problematic factors for the development of enterprises in Moldova. Beyond this ranking based on the perceptions of the enterprise leaders, we do not have to forget about the connection between many enterprises and corruption or informal economy. These enterprises in particular cannot appreciate the fiscal administration as “unequal”, since inequity is a specific state, exclusively experienced by the victims or the entities disadvantaged by the respective phenomenon. Acts of corruption or bribing are rarely isolated. Most of the times, they represent the expression of a long-term relationship established between the involved actors, where each actor commits to a wide range of “arrangements”, similar to a complex

service. Thus, the elimination of any type of difficulties met by enterprises, in regards to taxation, including the “adaptation” to the changing requests of the legal framework, in on the shoulders of the providers.

Therefore, we must consider the following particularities while assessing the importance of fiscal administration as a problematic factor for the development of enterprises.

One of the biggest constraints for the development of enterprises is the fiscal burden, which due to its size, ranks second in the top of problematic factors, after political instability. It is regarded as a strong or very strong constraint by 68.8% of the interviewed businesses. This opinion is less frequent in enterprises from outside the capital city, as well as among the ones involved in trade.

Figure 17. Distribution of answers to the question “Is the fiscal burden (the value of direct and indirect taxes) a major constraint for enterprise development?”, depending on the location of the enterprise

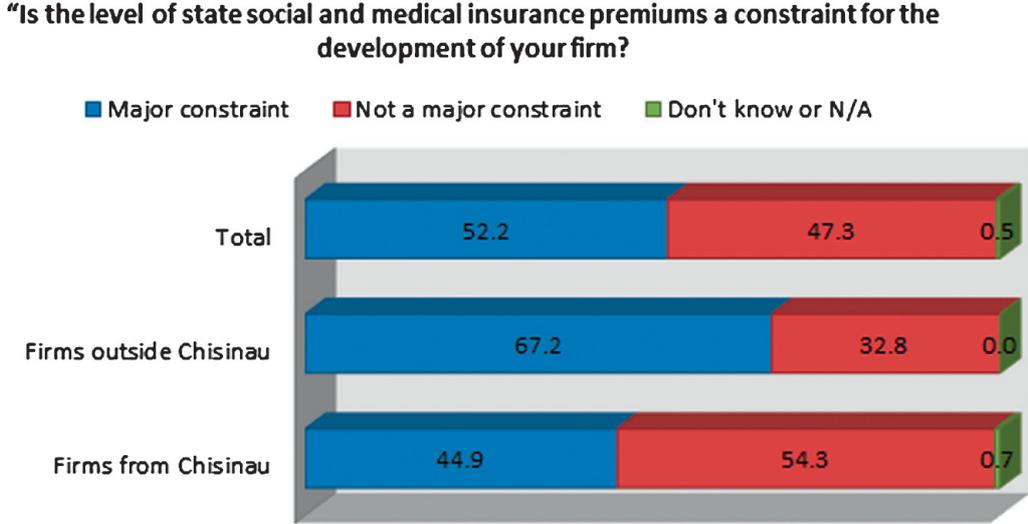


Source: EESE business survey

The burden created by mandatory contributions for social and health insurance is a strong constraint for enterprise development in the vision of 52.2% of respondents. On the other hand, for 47.3%, it is not a very tough constraint. It is interesting that the enterprises located outside the capital city regard social and health insurance as a major problem in 67.2% of cases, compared with only 44.9% cases - for the enterprises from Chisinau. This result can be explained by the considerably lower profitability of enterprises from the territory, especially those in agriculture. Due to their non-correlation with the enterprise's profitability, the social and medical insurance

shares absorb a large part of revenues in the case of enterprises with a lower profit margin. As one of the respondents explained (manufacturer of agricultural goods), "it is almost impossible to offer local agricultural products on the market at competitive prices while importers exactly respect the legal requirements and taxes." That is why, rural enterprises need to operate mostly with cash from their activity – only in such a way they could reach profitability and ensure competitiveness. We would like to remind you that in the EESE survey sample, farms and enterprises with less than three employees were not included.

Figure 18. Distribution of answers to the question “Is the level of state social and medical insurance premiums a constraint for the development of your firm?”, depending on the firm location



Source: EESE business survey

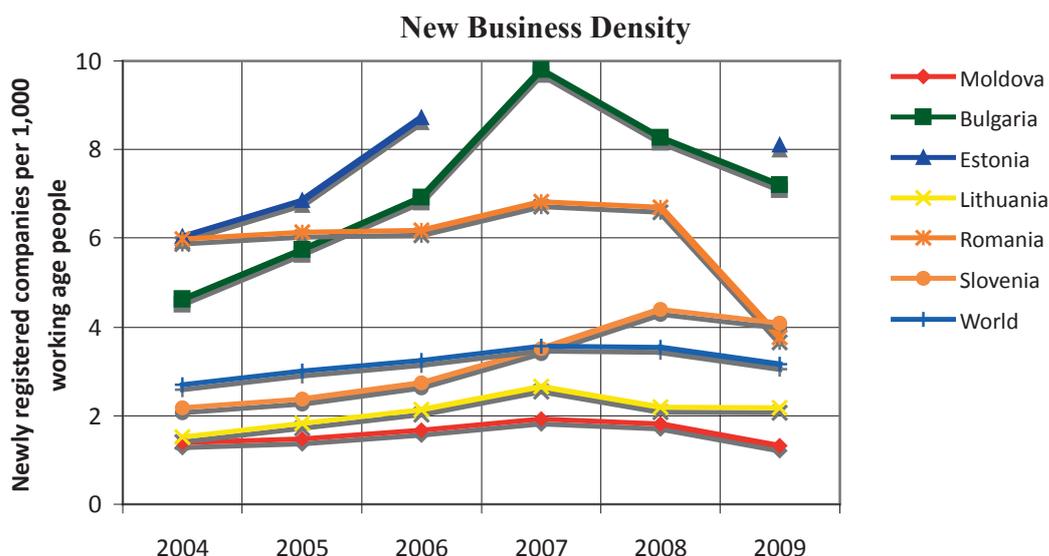
Fair competition

In order for the private sector and sustainable enterprises to develop and grow, it is important to have and protect fair competition rules, including those ensuring respect for labour and social standards. In addition, anti-competitive practices at the national level must be eliminated. In July 2012, the Parliament of Moldova adopted the new Europeanized Competition Law with the objective of aligning the internal competition legal provisions to the EU legislation on Competition Law. The piece of legislation entered into force 14 September 2012.²³ According to this law, the National Agency for the Protection of Competition (NACP) is reorganized into the Competition Council. According to new legal provisions, the Competition Council is an autonomous public

authority, accountable to the Parliament, which ensures the enforcement and compliance with the legislation related to competition, state aids and publicity. The Council is invested with the power to issue decisions, to regulate, ban, intervene, inspect and sanction, within the limits of the law. According to article 94 of the Competition Law, the normative acts for the implementation of these legal provisions were supposed to be adopted by the Competition Council within 6 months since the publishing of the law, thus by March 14, 2013. The adoption of these normative acts, and the overall reform of the institution, initiated back in 2012, was stopped by the political crisis of the Republic of Moldova in the first months of the current year. It resumed its activities only recently, after the Parliament managed to appoint the management of the Council and its organization structure.

23 Turcan Cazac. 2012. Legal Update: Moldovan Competition Law Reformed and Aligned to EU Standards. Turcan Cazac Law Firm News, 20 July. Accessed 4 May 2013.

Figure 19. New businesses density in Moldova and comparator countries, the period 2004-2009



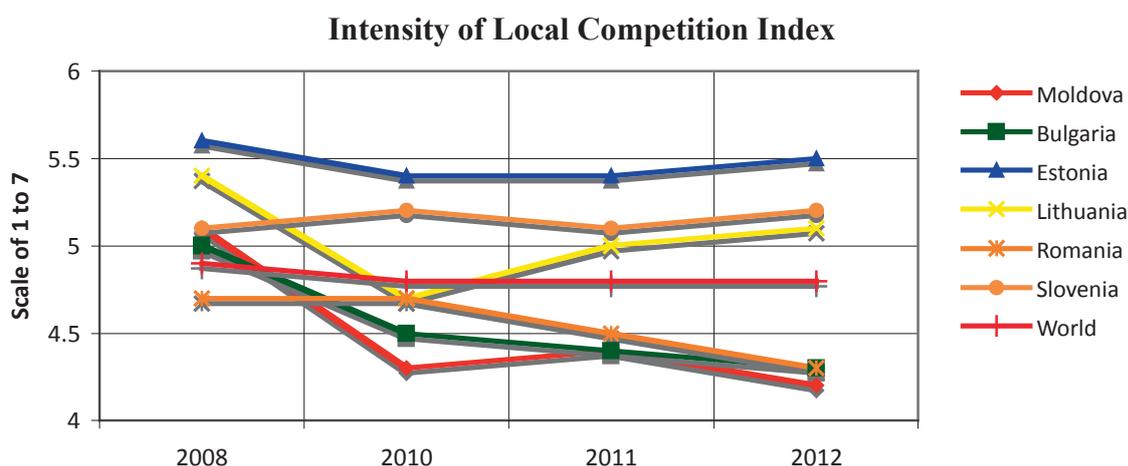
Source: World Bank's Entrepreneurship Survey (World Development Indicators Online).¹

¹ Data for Estonia for the years 2007 and 2008 is not available.

In order to gauge the level of competition, the "New Business Density" index is used internationally indicating the number of newly registered, limited liability companies per 1,000 working aged people (15 to 64 years old) in a given year. For Moldova this index has remained the lowest of the countries used for

comparison over the period 2004-09 (Figure 19). In the latter year, the number was as low as 1.32, which is a decrease from 2007 when the number peaked at 1.93. In 2009, Lithuania reflected the next lowest rate at 2.18, and Estonia registered the highest at 8.1. The world average for that year was 3.16.

Figure 20. Intensity of local competition index in Moldova and comparator countries, the period 2008-2012

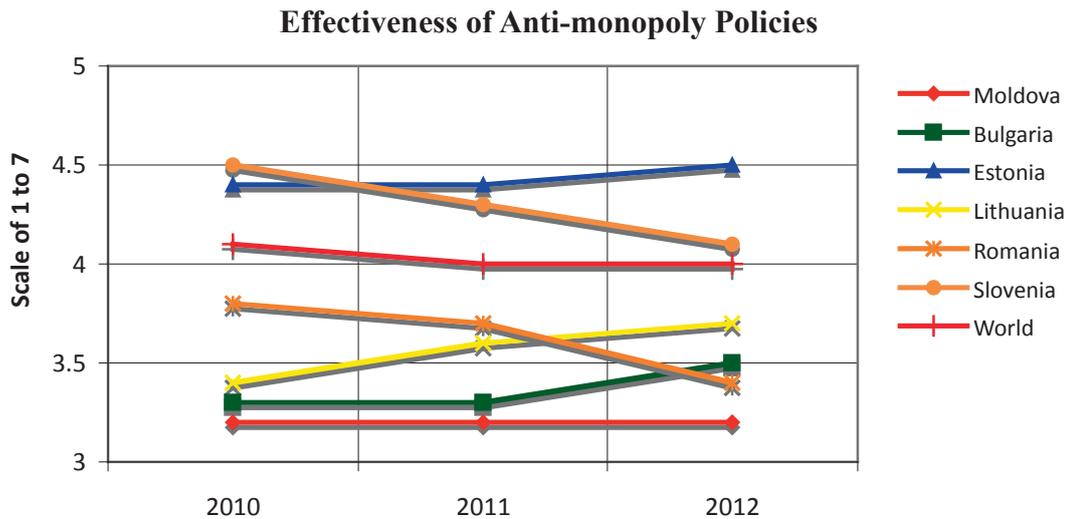


Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report.

Another pointer for fair competition is the "Intensity of Local Competition Index" that measures the level of competition in local markets from 1 to 7, with 1 standing for limited competition and 7 reflecting a very intense competition in most industries. In Moldova,

local competition is perceived as mild, but relative to countries used for comparison, it is the weakest in the group. The situation has also worsened in recent years, where the score for Moldova decreased from 5.1 in 2008 to 4.2 in 2012 (Figure 20).

Figure 21. Effectiveness of antitrust policies in Moldova and in comparator countries, the period 2010-2012

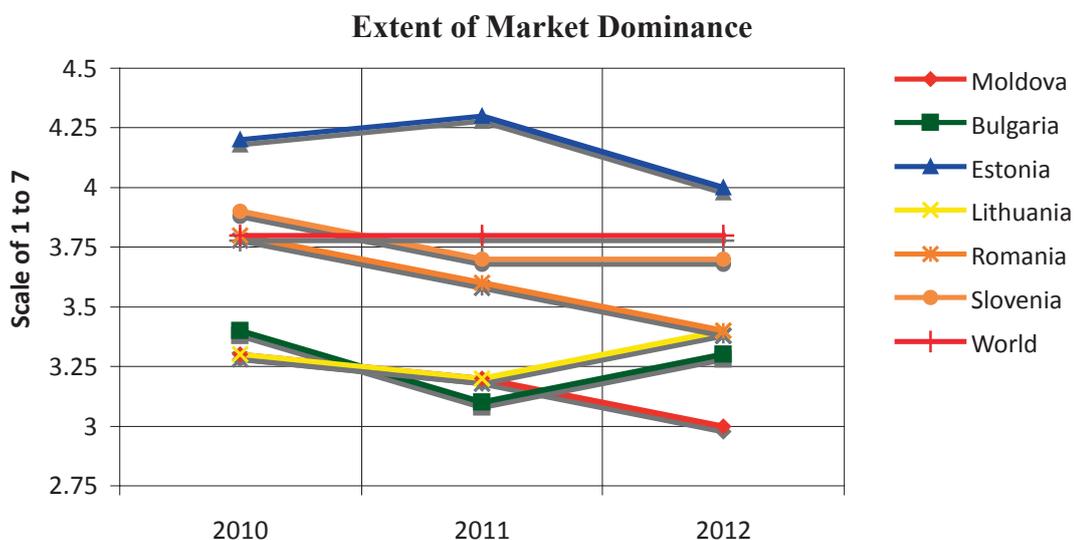


Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report.

The “Effectiveness of Anti-Monopoly Policy “ Index reflects the level of efficiency of antitrust policy in promoting competition on a scale from 1 to 7 with higher values corresponding to better performance. Again, Moldova performs the weakest relative to other countries used for comparison over the period 2010-12 (Figure 22). In 2012, Moldova scored 3.2, Romania scored the next lowest at 3.4, and Estonia registered the highest with 4.5. The “Extent of

Market Dominance Index” indicates whether corporate activity is dominated by only a few business groups or spread among many firms, in a range of values from 1 to 7 with higher values corresponding to more firms. The value for Moldova in this regard has decreased over the period 2010-12, moving from 3.25 in the former year to 3.02 in the latter. Additionally, all countries outperformed Moldova in 2012.

Figure 22. Extent of market dominance in Moldova and comparator countries, the period 2010-2012



Source: World Economic Forum Executive Opinion Survey, The Global Competitiveness Report

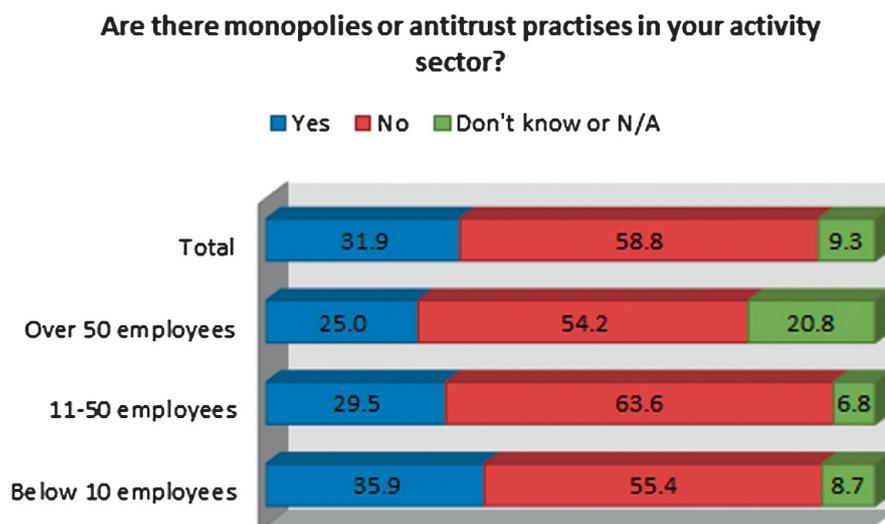
The EESE survey studied a series of aspects related to competition among Moldovan businesses, including the issue of monopolies and their regulation, access to Government programs for SME support, political interferes in business, informal economy.

Unfair competition

It is worth noting that a large share (60%) of the surveyed enterprises do not feel there

are monopolies in their sector of work. Nevertheless, 31.7% of respondents claim that there are monopolistic practices in their area of activity. It is interesting that this opinion is shared more often by representatives of micro-enterprises (up to 10 employees): in 35.9% of cases, compared with 25% of large enterprises.

Figure 23. Distribution of answers to the question “Are there monopolies or antitrust practises in your activity sector?”, depending on the number of employees, %



Source: EESE business survey

The perception of the monopoly is slightly different, depending on the type of activity the enterprise in engaged in. Thus, the group representatives for “Agriculture, industry, transportation and construction” report a less frequent presence of monopolistic practices in their sectors of activity, compared to respondents of the “Trade” group (33.8%/28.6%). Perhaps, this is due to the existence of a quantitative restriction of exports of agriculture products, introduced in order to ensure the food security of the state. The type of activity, age and location of enterprise does not significantly influence the distribution of this perception.

At the same time, 41.4% of businesspeople regard the anti-trust legislation as inefficient in combating or controlling this phenomenon.

Most of the respondents - 52.2% - have nevertheless abstained from expressing their opinion, recognizing that they do not have an opinion in this respect. More respondents had an opinion on the legislation on combating unfair competition: only 30.2% of them have abstained in giving an answer, while other 59.5% regard it as inefficient, in particular the companies involved in trade. This perception is due especially to the fact that after the adoption of the new competition law in September 2012,, the functionality and the activity of the Competition Council were affected by the delay required to approve the new structure in the Parliament.

An important share of respondents - 54.6% - believes that the current legal framework is disadvantageous for small enterprises. It

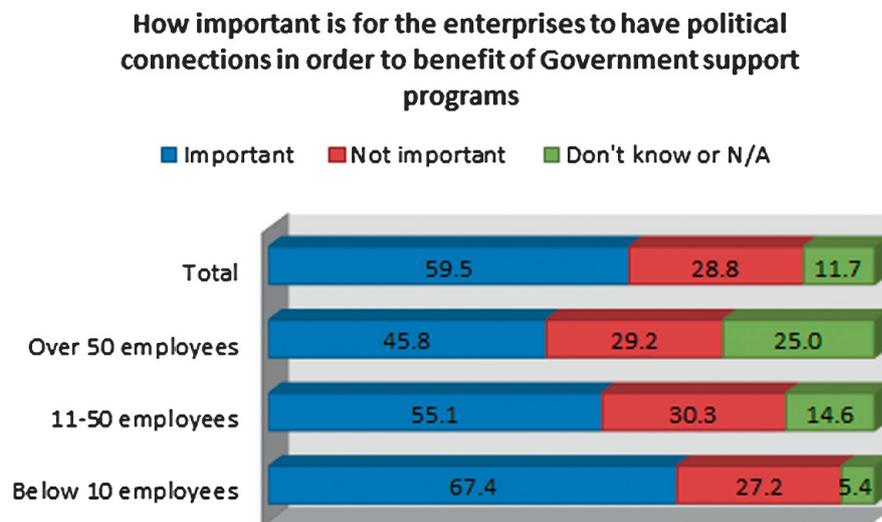
is interesting that this opinion is by far more frequent among micro-enterprises than the small ones: 63% and 47.2% of the cases, respectively. At the same time, it is less frequent among enterprises located outside the capital city than among those from Chisinau. Other factors did not influence the distribution of this opinion.

Political connections

59.5% of the interviewed businesspeople believe that political connections are needed

for the companies to be able to benefit of governmental support programs. Only 28.8% of them believe that this is not a decisive criterion for an enterprise to be included on these lists of beneficiaries. It seems that here again, the opinion of the manager varies according to the size of their enterprise: 67.4% representatives of micro-enterprises gave high importance to political connections, versus only 45.8% of enterprises with more than 50 employees.

Figure 24. Distribution of answers to the question “How important is for enterprises to have political connections in order to benefit from Governmental support programs”, depending on the number of employees, %

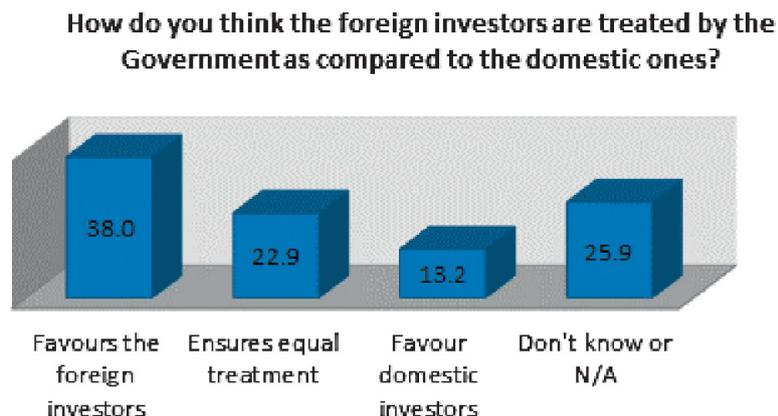


Source: EESE business survey

The Government’s attitude towards investors was always of interest for Moldovan businesspeople. Public policies aimed at attracting investments are good if they encourage any potential investor, both local and foreign. 38.1% of respondents believe that the Government favours foreign investors at the expense of the local ones. Only 13.2% believe that local investors are favoured, perhaps due to the above-mentioned political connections.

22.9% of the interviewed enterprise managers perceive the Government’s favours for investors as impartial. But one third of respondents abstained from expressing their viewpoint on this, which are perhaps those who do not see themselves in the role of investors, and therefore are not interested in this issue. The enterprises established after 2005 feel more disadvantaged in comparison to the foreign investors, as opposed to older ones.

Figure 25. Distribution of answers to the question “How do you think foreign investors are treated by the Government as compared to domestic ones? %



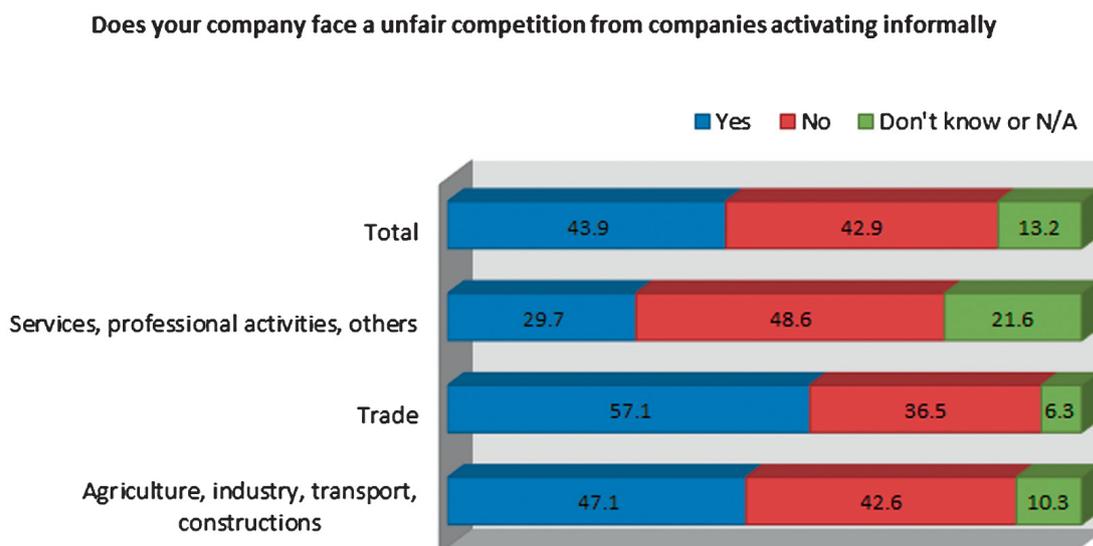
Source: EESE business survey

Informal economy

Besides the tension related to monopolies and political connections, another factor influencing competition on the Moldovan market is the informal economy. As profitable

as it is for its representatives, it is perceived as dangerous for the enterprises that tend to operate within the legal framework and, overall, for the development of enterprises and national economy.

Figure 26. Distribution of answers to the question “Does your company face unfair competition from companies operating informally”, according to the activity type, %



Source: EESE business survey

43.9% of the surveyed enterprises claim to be affected frequently by unfair competition from the various forms of informal economy. The most affected by this phenomenon are the trade enterprises with 57.1% of cases, and the least affected are the enterprises from the “services, professional activities and others” category with 29.7% of cases. At the same time, a significant difference between other two groups was identified: the enterprises established during 2000-2005 are facing competition of the informal economy in 54.2% of cases, if compared to only 35.6% of enterprises established after 2005. The older enterprises are situated in the middle, thus we cannot say that age immunizes or exposes the enterprise to this factor in a larger manner. First of all, it is clear why some trade enterprises are more affected than service and professional activities ones. Most consumer goods are merchandised on public markets by patent holders, who rarely have documents to confirm the origin of merchandise, and also no custom duties, because their merchandise is brought in small batches to avoid the customs control. This allows them to establish more attractive prices for their goods, which considerably affects sales of commercial units and enterprises that practice higher prices, due to the regular payment of import taxes and of sale or merchandise.

On the other hand, only 19.1% of the interviewed producers recognized that the enterprises of the sector they represent use quite often suppliers or contractors from the informal economy. It is easy to understand that enterprises with more than 50 employees use such suppliers and contractors less often.

2. Physical infrastructure

The development of sustainable enterprises critically depends on the quality and quantity of the physical infrastructure available, such as physical facilities and transportation systems. Access to water and energy also plays a pivotal role. Moldova has made significant

improvements in policies for infrastructure development, largely in line with EU policies and requirements. This is true for roadways, aviation, waterways, and energy.²⁴ However, in 2012, infrastructure in Moldova was rated at only 3.3 out of 7 by local business leaders, according to the World Economic Forum Opinion Survey.

While secondary data show that the quality of the Moldovan infrastructure is not particularly bad, due to the fact that the percentage of paved roads is high relative to other countries used for comparison, we should not forget, however, that the intensity of the population and of communities in Moldova is higher than in other states. In 2010, 86.2 per cent of roads in the country were paved, compared to just 17.9 per cent and 29.3 per cent in Estonia and Lithuania respectively. In Bulgaria and Slovenia nearly all roads are paved. No improvements are apparent in this regard in Moldova over the period 2003-2010. In January 2010 however, in an effort to improve road infrastructure, the government began allocating half of the fuel excise tax revenues to a road fund.²⁵

Like the other countries used for comparison, Moldova performs well in ensuring wide access to potable water, where 96 per cent of the population had access in 2010, up from 94 per cent in 2003.

“Electric Power Consumption” measures the production of power plants and combined heat and power plants less transmission, distribution and transformation losses, and own use by heat and power plants. Electric power consumption in Moldova is low compared to other countries, but has increased between 2009 and 2010. In the latter year, Moldova recorded a level of 1,049.1 kWh per capita, compared to the next lowest, Romania, which registered 2,392.3 kWh, and the largest consumer in that year, Slovenia, with 6,521.1 kWh per capita. In addition, consumption levels have decreased in Moldova over time,

24 European Commission. 2011.

25 Ibid.

dropping from 1,435.7 kWh per capita in 2004, to 1,049 kWh in 2010. In 2009, Moldova covered less than 30% of its demand (2009: 3,200 GWh) with domestic electricity generation (2009: 866 GWh). This is due to a lack of the total available generation capacity and the high generation cost of the existing capacity. In recent years, electricity was either imported from Ukraine or Transnistria. In 2007 and 2008, approximately 3000 GWh were imported from Ukraine. In 2009 Moldova switched suppliers and imported about 3000 GWh from Transnistria.²⁶

The “Quality of Overall Infrastructure Index” reveals whether a country’s infrastructure is underdeveloped or extensive and efficient based on a range from 1 to 7 with higher values indicating better performance. Over the period from 2008-12, Moldova consistently rose in the index, reaching 3.3 in the latter year. This is higher than the value recorded for Romania in the same year, equal to that of Bulgaria, and lower than those for Lithuania, Estonia and Slovenia. As Moldova

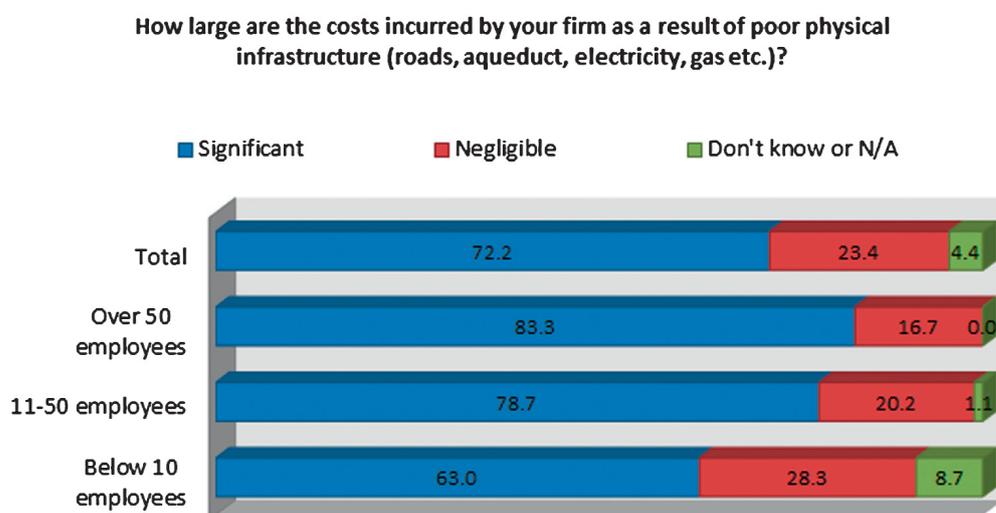
26 Zachmann, G. and Oprunenco, A. 2010. Electricity Sector in Moldova: Evaluation of strategic options. Policy Paper Series 01/2010. German Economic Team in Moldova, September. Accessed 27 May 2013.

is a landlocked country, the “Quality of Port Infrastructure Index” is meant to represent how accessible port facilities are, using a scale from 1 to 7 with higher values indicating better performance. Moldova has slightly improved in time reaching 3 in 2012. Of the countries used for comparison, only Romania registered a lower score than Moldova this year, at 2.6.

The problem of the physical infrastructure was covered by the EESE survey only generally, in terms of costs and impact, without getting into more concrete technical or descriptive details.

Access to physical infrastructure is one of the most important factors that determine the emergence and development of an enterprise. Lack of access to the key elements of physical infrastructure, or their inappropriate quality makes it impossible to physically perform ones activity or may generate such costs that will decrease significantly the enterprise’s competitiveness: 72.2% of the surveyed enterprises report the significant costs incurred by the enterprise because of the underdeveloped or inappropriate physical infrastructure. The costs are negligible for 23.4% of enterprises only.

Figure 27. Distribution of answers to the question “How big are the costs incurred by your firm as a result of poor physical infrastructure (roads, aqueduct, electricity, gas etc.)?”, depending on the number of employees, %



Source: EESE business survey

As expected, the enterprises outside the capital city incur more frequently high costs due to infrastructure: 86.6% of them, versus 65.2% of enterprises from the capital city. At the same time, the enterprises with more than 50 employees are significantly more affected by the infrastructure than micro-enterprises.

Although not too many in the sample - only 11 units - all agricultural enterprises report significant costs due to poor quality infrastructure. And last, only 40% of enterprises from the "professional, scientific and technical activities" category are affected by infrastructure-related costs.

Nevertheless, recently some big investments were made in physical infrastructure, segments of national roads were reconstructed or repaired; these are insignificant compared to the necessary ones. That is why 87.8% of respondents claim that their impact was not significant on the activity of their enterprise. Only 6.9% of the surveyed managers regard their impact as significant. However, it should be noted that the sample of surveyed enterprises was too small to reveal the impact of scattered local investments.

Social elements

1. Education, training and lifelong learning

The development of a skilled workforce and the expansion of human capabilities through high-quality systems of education, training and lifelong learning, are important for helping workers find good jobs and enterprises to find the skilled workers they require. Moldova's educational system is one of the main sectors where corruption is perceived as widespread. In particular, one study found notable financial irregularities and non-transparency in the disbursement of public funds within the education system.²⁷

Data on "Public Spending on Education" is scanty for the countries compared. However, it is clear from the limited data that Moldova performs markedly better than other countries used for comparison, and is also well above the world average over the period 2006-09.²⁸ In 2009, public spending on education in Moldova peaked at 9.51 per cent of GDP, the highest of all countries compared for that year. However, in 2010 and 2011 the percentage has somewhat decreased. This may be due to stricter regulations to curb alleged corruption in the educational system.

Although Moldova allocated more funding to education than other countries, educational

attainment is consistently the lowest in comparison. The "Education Index" measures the educational attainment on a scale from 0 to 1 with higher values indicating better performance. Over the period 2006-11, Moldova maintained stable, high values, and only fell marginally in 2012, moving from 0.72 in 2011 to 0.67 in 2012. However, all other countries used for comparison recorded higher values over the period 2006-12. The literacy rate for youth aged 15-24 in Moldova is notably high, at 99.5 per cent in 2010, compared to the world average of 89.6 per cent in the same year. Similar percentages are recorded for the compared countries, where Estonia, Lithuania and Slovenia recorded the highest level at 99.8 in 2010, and Romania the lowest with 97.3.

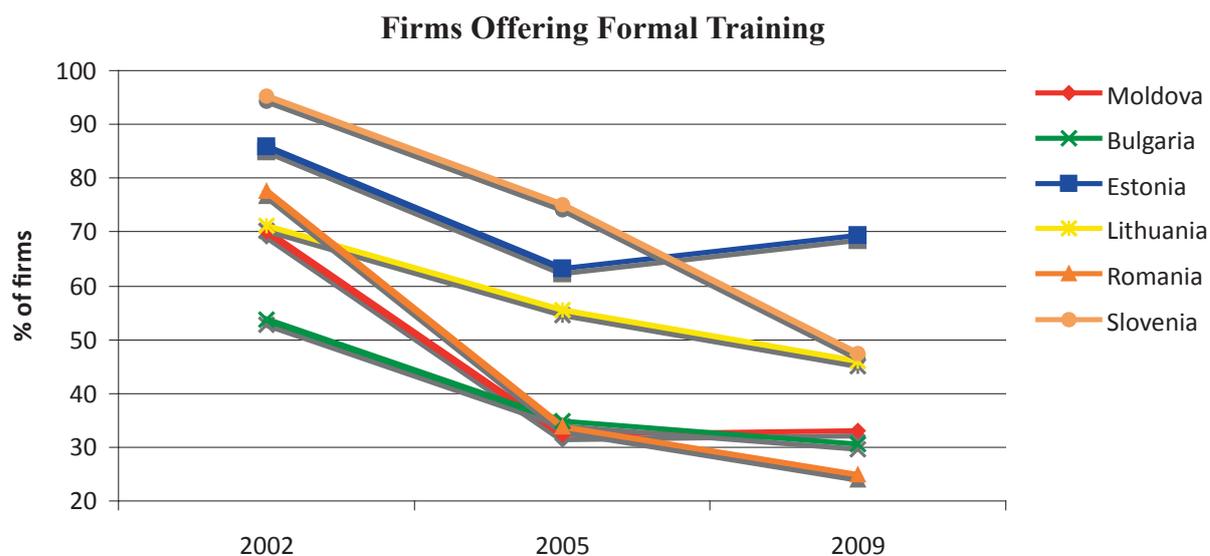
In Moldova, there are substantial gaps in financing between the different levels of education, where general compulsory education is directed almost 50% of the funds, which are inefficiently used, while less than 10% goes to secondary vocational education. This level of funding is insufficient for modernizing the system and training specialists for the labour market. Similarly, the lifelong learning concept, and in particular, distance learning, are underdeveloped in Moldova.²⁹

27 Freedom House. 2012a.

28 World Bank, World Development Indicators, Public Spending on Education available at <http://databank.worldbank.org/data/home.aspx>.

29 Institute for Development and Social Initiatives. 2009.

Figure 28. Share of firms offering formal training in Moldova and comparator countries, the years 2002, 2005 and 2009



Source: World Bank, Enterprise Surveys and World Development Indicators Online.

Concerning the percentage of “Firms Offering Formal Training” to their permanent and full-time staff, despite limited data, it is clear that Moldova has experienced a sharp decline since 2002, moving from 70 per cent of firms in that year, to just 33.1 per cent in 2009. Of the six countries used for comparison, Moldova outperformed Romania and Bulgaria in 2009, while Estonia recorded the highest percentage in that year, at 69.3 per cent. The “Extent of Staff Training” indicates whether companies in a country invest little or heavily in training and employee development to attract, train and retain staff, on a scale from 1 to 7 with higher values indicating more investments. Moldova reflects stable, but relatively poor performance in this regard over the period 2008-12, maintaining values of 3.3 and 3.2. In 2012, Moldova recorded a value of 3.2, underperforming all countries used for comparison with the exception of Bulgaria, for which data was unavailable for in that year. The world average for the same year was 3.9.

Issues related to the sufficiency and quality of the labour force, as well as to education and training were analysed in detail for the enterprises sampled for the EESE survey.

2. Labour force

When asked about the most important competencies and skills that their employees should have, the managers of the surveyed enterprises names about 60 versions of qualities, competencies and skills, which could be categorized in two large groups, as follows:

- *General and personal characteristics:* health, general culture, intelligence, logical thinking, objectiveness, attention to details, rationality, ethics, team spirit, initiative, responsibility, kindness, hygiene/aesthetics, flexibility, trustworthiness, honesty, discipline, punctuality, skilfulness, energy, sociability, spirits, ethics, to talk little, talented, hardworking, serious, honest etc.
- *Knowledge, professional competencies and work abilities:* commitment to work, experience, creativity, marketing thinking, knowledge of the products, client orientation, contract management, fast learning capacities, foreign language skills, ability to work with the computer and to utilize advanced technologies, higher education, efficient communicator, public speaking

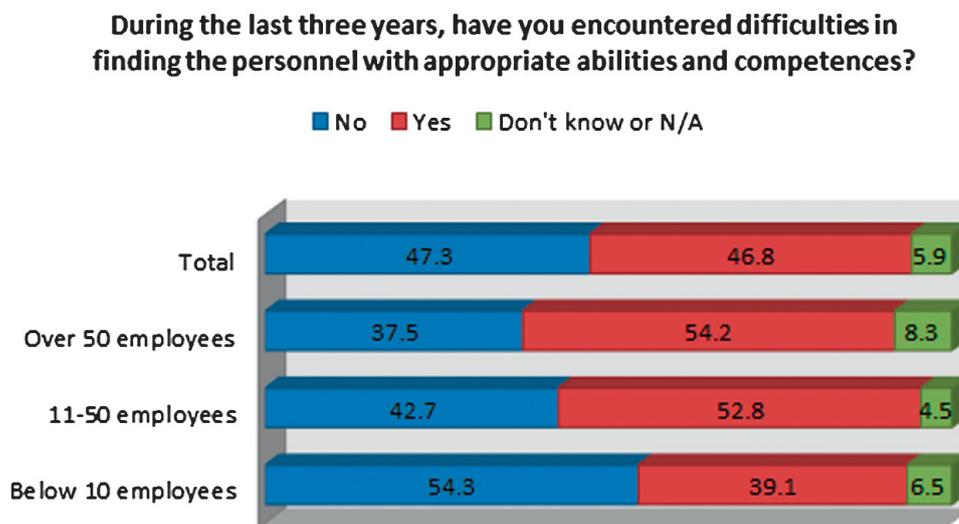
abilities, persuasive qualities, conflict solving capacities, capacities for work/professionalism, ability to certificate competencies, knowledge of the area, respect for the employer, the desire to develop the country's economy, work quality, studies in the area, loyalty for the company, the desire to learn, interest, continuous personal training, non-mainstream thinking, capacity to collect and analyse information, capacity to work with large amounts of data etc.

The numerous and diverse "competencies" listed by the respondents reflects the somehow individualized and at the same time complex character of the profiles which are covered by leaders and managers. The interesting fact is that the profile of an "ideal employee" is

structured of a variety of general and personal characteristics, which cannot be evaluated at the moment of hiring, only during the activity. Often, enterprises are looking for exact profiles that are much under the necessary level to attract and maintain such employees. The largely spread practice of hiring without a work contract is an argument in this regard.

According to the respondents' answers, 46.8% of enterprises encounter difficulties in employing staff with the desired competencies and skills on a frequent or systematic basis. Other 47.3% encountered such difficulties very seldom. Here the enterprises with other 50 employees have the most problems: 54.2% of them had to deal with such difficulties, whereas other 37.5% from this group were exempt from such problems.

Figure 29. Distribution of answers for the question "During the last three years, have you encountered difficulties in finding personnel with appropriate abilities and competences?"; depending on the number of employees, %



Source: EESE business survey

Enterprises from the sector of "agriculture, industry, transport and constructions" encountered significant difficulties with the employment of qualified staff in 52.9% cases, versus 41.3% of trade enterprises. Other factors did not influence the distribution of answers.

The shortage of qualified workers for the needs of the enterprise may sometimes have

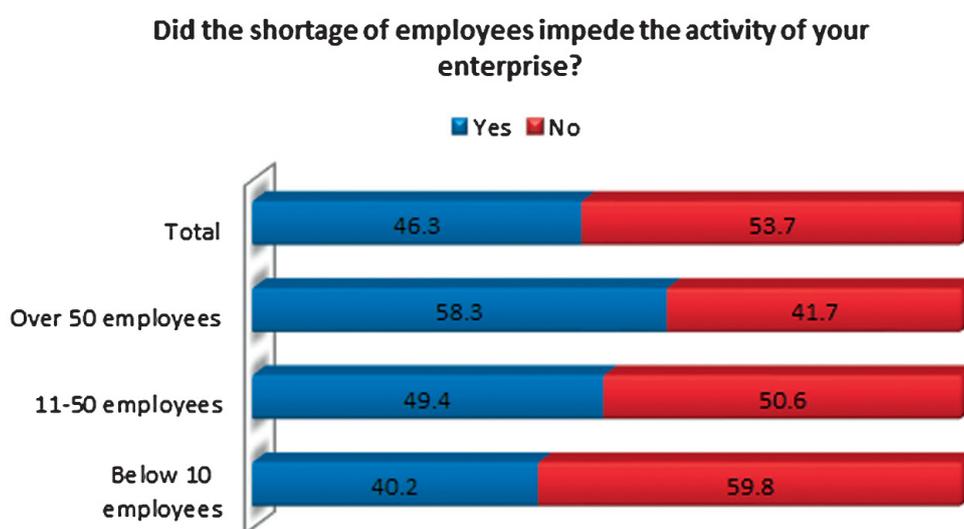
severe consequences. Various components or aspects of the enterprise's activity, and generally, the development of the enterprise may be negatively affected. The impact analysis revealed that the shortage of qualified workers most often impacts: the enterprise's development (44.4%) and the ability to satisfy the demand (28.3%). The other components of

activity were affected to a lesser extent, such as production of goods or services, ensuring the quality of goods/services, operational costs, development and technological innovations.

In general, 46.3% of enterprises were somehow affected by the shortage of workers. According to types of activities, enterprises from the “agriculture, industry, transportations and constructions” were mostly affected (57.4%), while “trade” ones were the least impacted

(38.1%). The size of the enterprise has also influenced the exposure to these negative effects due to the negative effects of the shortage of workers: the strongest affected were the large enterprises – in 58.3% of cases, compared to only 40.2% of micro-enterprises. With regards to location, enterprises out of Chisinau were the most affected (52.2%), compared to those out of the capital (43.5%).

Figure 30. Distribution of answers to the question “Did the shortage of employees impede the activity of your enterprise?”, depending on the number of employees, %.



Source: EESE business survey

Enterprises have different strategies to overcome the shortage of qualified workers and, respectively, decrease its negative impact on their activity, but most often they have to assume the difficult task of training the staff, at least in the key areas. Thus, 65.4% of the interviewed managers confirmed that their staffs were trained quite often by the enterprise. Only 4.9% of enterprises have never trained their staff. Micro-enterprises train their staff the least often. Microenterprises provide the least number of trainings to their employees: 38% of employers admitted that they either never offered training or only very rarely. It should also be noted that companies with more than 50 employees provide slightly more trainings to their employees (71.3%) as compared to other smaller companies.

The training of employees is a rather complex issue and, in addition to time or financial resources, it requires a specific capacity of enterprises in this regard. There are various factors that may hamper on-the-job training of employees and the main ones were identified through a focus group conducted in March and were later included in the survey questionnaire. The most frequent factor identified by respondents (30.7%) was the lack of funds for training. However, according to work legislation provisions the employer has the right to allocate 2% of its payroll to educational purposes, expenses that are deductible. Beyond this margin, the employer will pay taxes for such expenses.

The second factor reported by company managers in 27.3% of cases is the high

fluctuation of employees. Enterprises seem to have little control over staff fluctuations. They cannot force employees to stay with a company after they were trained. In recent years, some companies used to add a clause to the employment contract concerning the duty of the employee to reimburse training costs if the employee leaves the company. However, this is not perceived as an effective tool against relevant risks. According to interviews, the most effective tool is to provide employees

with working conditions and wages good enough for them to remain with the company after having improved their skills. Such an approach is affordable only to a small number of enterprises.

High fluctuation of employees and their reluctance to be trained – both of these problems are more common for enterprises outside the capital city.

Table 2. General answers to the question “To what extent do the following factors impede the training of employees in your company?”

	Is an impediment		Is not an impediment		Don't know/ not applicable		Total	
	N	%	N	%	N	%	N	%
Lack of funds for training	63	30,7	134	65,4	8	3,9	205	100,0
Lack of relevant courses/ trainers	50	24,4	146	71,2	9	4,4	205	100,0
Employees' reluctance	52	25,4	145	70,7	8	3,9	205	100,0
High turnover of employees	56	27,3	137	66,8	12	5,9	205	100,0
Lack of time for training	36	17,6	159	77,6	10	4,9	205	100,0

Source: EESE business survey

Another major problem in this respect is training costs available on the market, which are unaffordable to 40.4% of enterprises. Other 36.8% of enterprises can afford such training costs, as reported by respondents. These costs seem mostly unaffordable to microenterprises and enterprises located in the capital city (as compared to those outside the capital city).

The existence per se of governmental training programmes is acknowledged by merely 20% of the respondents. For the other 56.3% of enterprises, governmental training programmes seem non-existent.

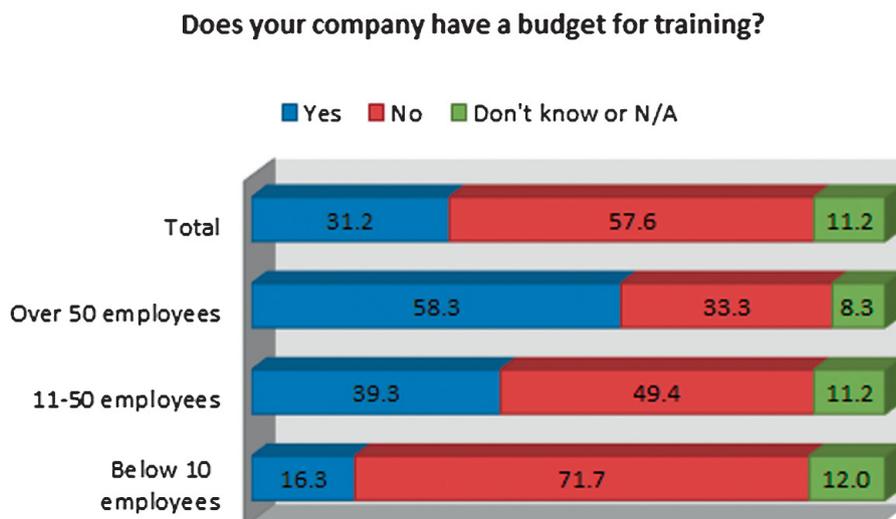
In this context, we could note that the representatives of the Moldovan business have knowledge of the programs implemented by ODIMM (the Organization for the Development of Small and Medium Enterprises) within the Ministry of Economy, which implies instruction components, for example PARE 1+1 (the Program for attracting remittances in the

Economy), PNAET (the National Programme for Economic Empowerment of Youth) and the GEA (Efficient Management of Business), also those organized by the Centre of Continuous Instruction of the Chamber of Commerce and Industry of the Republic of Moldova. All these programs are implemented with the support of the external development partners.

Two thirds of the surveyed companies carry out periodic assessments of current and future skill needs. As expected, this procedure is more frequently performed by larger enterprises and less frequently by microenterprises.

Almost 57,6% of enterprises do not have a budget for training. This indicator is closely related to the number of employees in the company (those with fewer employees have budgets in less cases) as well as to the age of the company (older companies have budgets more often).

Figure 31. Distribution of answers to the question “Does your company have a budget for training?” depending on the number of employees, %



Source: EESE business survey

Largely, the shortage of skilled labour stems undoubtedly from the deficiency of national educational policies, as well as the macroeconomic situation. It seems that education in Moldova is highly uncorrelated with the needs of the real economy. As many as 69.2% of surveyed business people felt that vocational education and secondary special education do not generally meet the needs of companies in the country. Only 21% of respondents agreed that education sectors meet the real economy’s needs. The same is true for the higher education in Moldova: in 67.8% of cases the answer was negative whereas in 23.9% of cases it meets the needs.

3. Labour Code and Social Protection

Providing citizens with access to key services, such as quality health care, unemployment benefits, maternity protection, and a basic pension, are key to improving productivity. Protecting workers’ health and safety at the workplace is also vital for sustainable enterprise development and productivity gains. Moldova boasts an extensive social protection system with both non-contributory and contributory social benefits. In 2009, in spite of the global crisis, the Government of Moldova raised pensions, social assistance benefits, and

public wages to compensate for losses in remittances and private sector wages. Though unsustainable, these temporary measures allowed the country to protect its poor and avert the projected increase in poverty rate.³⁰

The cost of social protection is on an upward trend, and in 2008, it had reached 30 per cent of the total expenditures of the national public budget and represented 12 per cent of GDP. Unlike the national public budget, the state social insurance budget (SSIB) performs well, resulting in a budget surplus in 2008. Despite this strong performance, as a result of the contraction of national public budget revenues, the return of some 40 thousand emigrants, and the increase in unemployment and the number of vulnerable people, the state social insurance budget could turn into a deficit of unprecedented levels.³¹

Secondary information on social protection in Moldova is largely unavailable or scanty. Considering data on “Public Expenditure on Health” as a percentage of GDP over the period 2002-11, a positive trend is apparent here, with expenditure levels rising from 4 per cent in the former year to 5.2 per cent in the latter year.

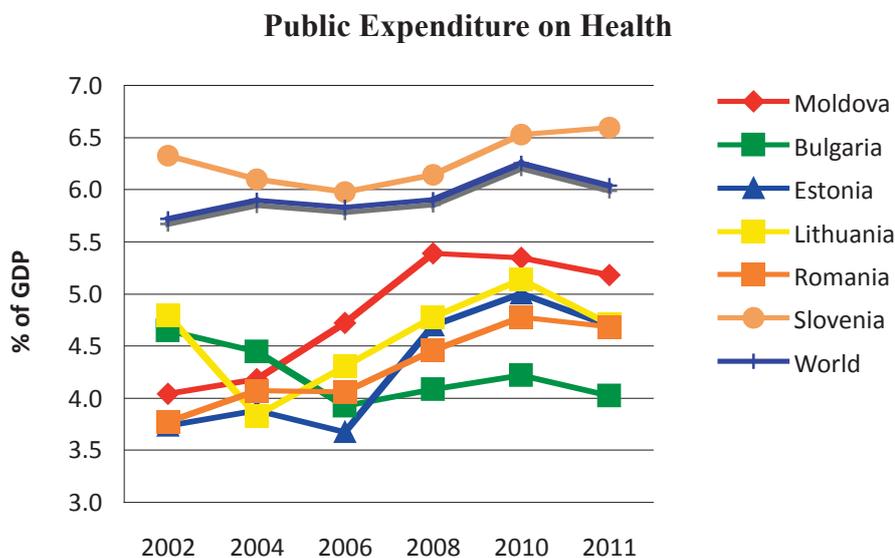
30 World Bank. 2013. Country Program Snapshot, World Bank Group – Moldova Partnership. World Bank Group; Republic of Moldova, April. Accessed 4 May 2013.

31 Institute for Development and Social Initiatives. 2009.

In 2011, of the countries used for comparison, only Slovenia outperformed Moldova with a

rate of 6.6 per cent. The world average for that year was 6 per cent.

Figure 32. Public expenditures on health in Moldova and comparator countries, the period 2002-2011

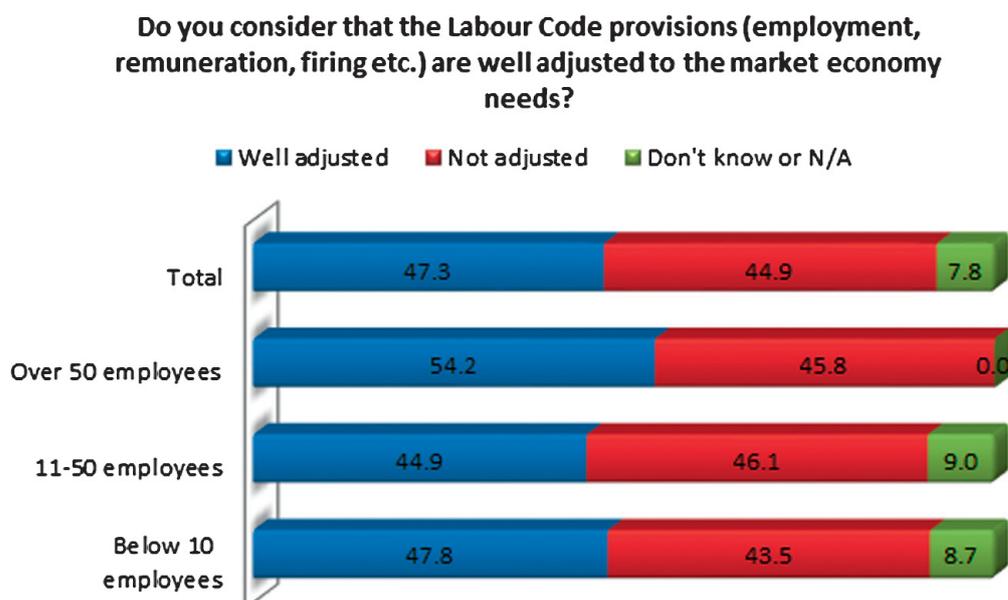


Source: World Bank data online

ESEE survey showed that 44.9% of business representatives believe that provisions of the Labour Code, particularly those relating to employment, remuneration and dismissal, are not sufficiently adjusted to the market's needs. Other 47.3% of respondents think that

the Labour Code is sufficiently adjusted. At the same time, 58.6% of the respondents believe that the Labour Code provides a favourable framework for the efficient management of human resources. Other 36.6% of the respondents think that it is unfavourable.

Figure 33. Distribution of answers to the question "Do you consider that the Labour Code provisions (employment, remuneration, firing etc.) are well adjusted to the market's needs?", depending on the number of employees, %.



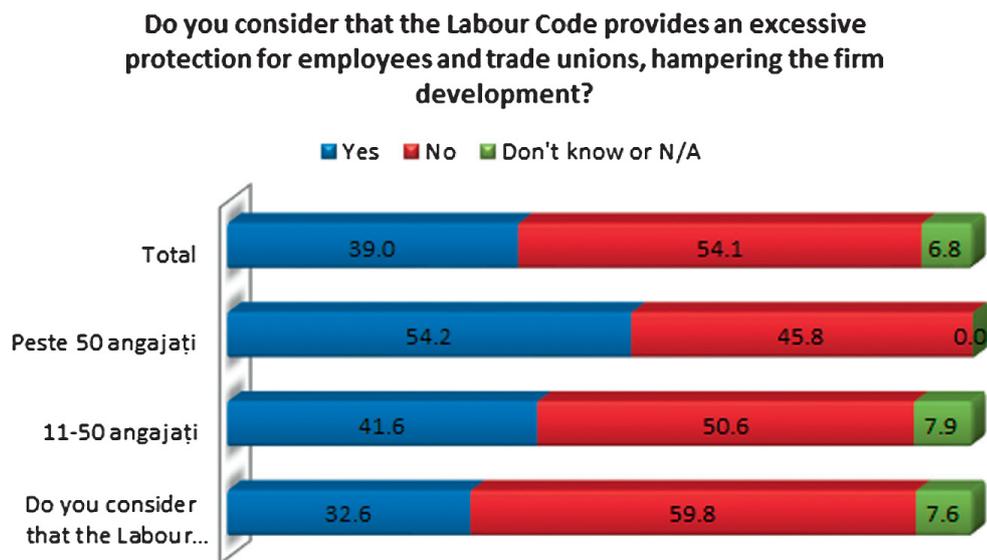
Source: EESE business survey

Apparently, the results of the survey confirm that the Labour Code contains several outdated aspects, which create several issues, especially for those enterprises, which conduct their activity according to the provisions of the legal framework. Even though the ESEE survey has not explicitly tackled these sensitive subjects on the activity of the enterprises, phenomena such as double accounting, hiring employees without a contract, or different salaries than the one established by contract, and other practices, are well known and vastly practiced in the Moldovan business environment, especially in small and medium enterprises, which compose the largest part of our sample. Therefore, it is likely that for the

enterprises that “learned to avoid” the legal framework, the Labour Code is not an obstacle, which explains the results of the survey.

Another similar assessment to the above, shared by 39% of respondents is that the “Labour Code provides excessive protection of employees and employees association, thus being an obstacle to the development of the enterprise. Other 54.1% of respondents have stated an opposite opinion in this regard. The analysis of the correlation of this attitude with the size of the enterprise has shown that larger ones are more critical than the smallest ones regarding the Labour Code.

Figure 34. Distribution of answers to the question “Do you consider that the Labour Code provides an excessive protection for employees and trade unions, hampering the firm’s development?”, depending on the number of employees, %.



Source: ESEE business survey

Membership to an employee association is seen as a “major problem for the development of the enterprise” by 10.3% of respondents, while other 63.4% - do not see it as a problem. However, this perception is understandable, since the existence of employee associations has been reported in only 13.4% of the researched enterprises.

Standards on health and security at the work place applied in Moldova are appreciated as adequate and practical for enterprises by 68% of respondents, mostly by the representatives of larger enterprises. Other 22.4% of respondents don’t consider these as being adequate and practical.