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- The enabling environment for sustainable enterprises in Moldova

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Foreword

Enterprises thrive in a business environment that is conducive to their development and growth. It is therefore important to not only provide assistance to enterprises and their support organisations but also put in place a conducive regulatory, policy and institutional environment that enables enterprises to start up, expand and sustain themselves. As part of its mandate to create decent work, the International Labour Organization (ILO) focusses on job creation, social protection, social dialogue and rights at work. This includes the promotion of economies that generate more and better jobs in sustainable enterprises. Against this background, the ILO has developed the *Enabling Environment for Sustainable Enterprises* (EESE) methodology as a way to provide evidence-based recommendations on how to improve the business environment for sustainable enterprises. This tool focusses on the political, economic, social and environmental aspects of doing business and has been applied in more than 40 countries.

In 2013, the ILO assisted the National Confederation of Employers of the Republic of Moldova (CNPM) to conduct an EESE assessment. The consultations between government and the employers on the results of the assessment led to reforms simplifying the registration and licensing procedures, reducing the number of state inspections and control bodies, improving tax policies and administration, approving a new law on public procurement, making labour law more flexible and developing the legislative framework for dual training and apprenticeship.

As a follow up the ILO has been requested to support a new tripartite assessment of the enabling environment and identify priority areas in which further reforms are needed. The new assessment is based on a desk review of new findings on the business environment in Moldova, interviews with officials from government, employers, and trade unions, and a perception survey among 400 business owners and 107 workers. ILO tripartite constituents validated the report during a workshop in September 2019.

Based on the identified business environment constraints, the tripartite partners have also developed an action plan on (i) the enabling legal and regulatory environment; (ii) education, training and life-long learning, and (ii) social dialogue. This action plan proposes concrete measures to improve the enabling environment for sustainable enterprise development in Moldova.

The EESE assessment was carried out under the technical supervision of Judith van Doorn from the Small and Medium Enterprises (SME) Unit, of the ILO headquarters in Geneva, in collaboration with Iulia Drumea, Employers' Specialist (ACT/EMP) from the ILO Decent Work Technical Support Team and Country Office for Central and Eastern Europe in Budapest and Ala Lipciu, the ILO National Coordinator in Moldova.

Special appreciation is due to Axa Management Consulting for conducting the perception survey, to Shusuke Oyobe for his technical inputs and to Saumya Premchander for drafting the final report.

We hope that, with this information, the government and social partners will be encouraged to make further progress in addressing some of the key constraints, with the ILO support.

Dragan Radic,
Head SME Unit, ILO Geneva

A handwritten signature in black ink, appearing to read "Dragan Radic".

Markus Pilgrim,
Director, ILO DWT/CO Budapest

A handwritten signature in black ink, appearing to read "Markus Pilgrim".



MOLDOVA

Kishinev



Table of Contents

Forewordiii
Executive Summaryvii
Abbreviations and Acronymsxi
1. Introduction	1
1.1 Survey Methodology	2
1.2 Limitations of the Survey.....	4
2. Political Elements	5
2.1 Peace and Political Stability	6
2.2 Good Governance.....	9
2.3 Social Dialogue and Industrial Relations	17
2.4 Respect for Universal Human Rights and International Labour Standards	25
3. Economic Elements	31
3.1 Sound and Stable Macroeconomic Policy and Good Management of the Economy.....	34
3.2 Trade and sustainable economic integration.....	43
3.3 Enabling legal and regulatory environment	47
3.4 Rule of law and secure property rights.....	57
3.5 Fair competition	62
3.6 Information and communication technologies.....	69
3.7 Access to financial services	74
3.8 Physical infrastructure.....	81
4. Social Elements	87
4.1 Entrepreneurial culture	88
4.2 Education, training and lifelong learning.....	93
4.3 Social justice and social inclusion	101
4.4 Adequate social protection	103

5. Environmental Elements	109
5.1 Responsible stewardship of the environment.....	110
Assessment Results and Ways Forward	115
Bibliography.....	117
Data Sources.....	123



Executive Summary

The 96th session of the International Labour Conference held in Geneva in 2007, adopted conclusions for the promotion of sustainable enterprises and identified 17 elements of an enabling environment for sustainable enterprises. An environment conducive to the creation and growth of sustainable enterprises combines the legitimate quest for profit with the need for development that respects human dignity, environmental sustainability and decent work. In that context, the Republic of Moldova (hereafter referred to as Moldova) is one of the countries that implemented Enabling Environment for Sustainable Enterprises (EESE) assessments based on an ILO methodology, which was developed following the conclusions of the International Labour Conference.

Between 2012 and 2013, the ILO supported the National Employers' Confederation of Moldova (CNPM) to conduct an assessment of the Enabling Environment for Sustainable Enterprises (EESE). Assessment findings have been published in an EESE assessment report, which was in turn condensed into a document which lists the seven key business constraints: (1) Unstable political climate and deficient relations with the state institutions; (2) Ineffective social dialogue; (3) Burdening regulatory framework; (4) Deficient competition; (5) Poor quality infrastructure; (6) Low-skilled labour force; and (7) Inflexible labour legislation. The results and the way forward as identified in the EESE assessment and action plan have also been presented at a high-level forum.

In September 2014, an agreement was signed between CNPM and the government based on which the parties committed themselves to collaborating on the improvement of the taxation system, social security system, health insurance system, public procurement procedures, amendment of the Labour Code, reduction of the informal economy and unfair competition. Furthermore, the ILO has assisted CNPM to develop position papers on the amendment of the labour code, social dialogue and the informal economy.

Several issues have been, or are in the process of being addressed since this EESE assessment took place, yet there was still room for improvements. Therefore, ILO constituents agreed on the need to conduct a tripartite EESE assessment, as documented in the Decent Work Country Programme for Moldova (2016-2020). This tripartite assessment was launched in May 2018.

During a tripartite process, the tested EESE methodology was applied – to collect and analyse all the necessary data and to present the report on the findings. With the support of external researchers and using the EESE questionnaire, a survey was conducted among 400 employers from five regions in Moldova, as well as 107 workers from different industries.

Based on the EESE methodology, there are 4 main segments analysed in this report: political, economic, social and environmental elements. Tripartite constituents selected five countries, namely: Estonia, Slovenia, Albania, Romania and Malta, as comparison countries for Moldova. This report synthesises the findings of the enterprise perception survey, data collection and a literature review, assessing the enterprise environment against 17 key elements for enabling sustainable enterprises.

Political Elements

Although much progress has been made, Moldova still faces the challenges of building a healthy democracy, and economy in the context of fragile institutions, as well as limited human capital. Years of political instability have had an impact on institutions, as well as the economy, and social and economic indicators. Moldova has a post-Soviet political context, and emerging democratic processes, which compound the difficulty of bolstering the country's economy, infrastructure and political institutions.



The EESE Survey found that representatives from enterprises felt that political instability affected the development of enterprises. A very high portion of respondents from the survey were concerned about the degree to which bribery and corruption presented major obstacles to the growth of enterprises. Almost half of the representatives of enterprises (49.5%) somewhat agreed whereas one out of three respondents (37.8%) totally agreed that these were major obstacles. While survey respondents felt that they had relatively high freedom to create and join labour organizations, 82.5% of enterprises represented did not have trade unions at them, and 77% of respondents were from companies that were not members of an employers' association.

Moldova's legal framework provides for the protection of human rights but the implementation of existing laws is problematic. A Universal Periodic Review was conducted in 2016, and a new National Human Rights Action Plan for 2018-2022 has been adopted to address its recommendations. The EESE Survey found that respondents thought there was scope for improvement in terms of respecting human rights, and the fundamental principles and rights at work.

Economic Elements

Since becoming an independent country in 1991 Moldova has undergone a political and socio-economic transition from a communist political system and centrally-planned economy towards democracy and a market economy. Despite recent progress Moldova remains among the poorest countries in Europe. In 2016 the National Regional Development Strategy (NDS) for 2016-2020 was approved, which aims to ensure sustainable development of Moldova's regions.

The country was nearly bankrupted after USD 1 billion, an amount equal to about one eighth of the annual GDP, was stolen from the banking system in 2014, after which extensive financial reforms were implemented. The shock to the economy led to increased inflation, depreciation of the currency, and waves of protests against corruption and

the government. In 2016 an IMF program was approved, and reforms and regulations introduced. Several high profile corruption and tax evasion cases have been prosecuted in recent years, but there is still a lot of progress to be made.

When asked about whether they thought Moldova had a sound and stable macroeconomic environment, and that the economy was well managed 54.3% of enterprises respondents said they did not agree. When asked about how encouraging they thought the Moldovan legal and regulatory framework was for the functioning and the development of enterprises 52.8% of enterprises respondents said they did not really find it encouraging. A majority of enterprises representatives (54.3%) thought that existing company tax, VAT, and social and medical contributions discouraged the growth of enterprises. Yet when asked about how they perceived the recent initiative to reduce tax burdens on businesses and their impact, 69% of the interviewed enterprises representatives were either relatively positive or very positive.

Towards creating a comprehensive legislative base for transitioning to a market economy Moldova has adopted several new laws and regulations, including a new bankruptcy law, a competition law, and legislation on payment services and electronic money. Survey responses and informant interviews underlined that the suboptimal functioning of the justice system, which is controlled by a few interest groups and persons, made the business environment less attractive. The majority of enterprises respondents agree either fully or to some extent that the law is open to political interference.

There was some positive feedback on the particulars of licenses, permits and authorization, with enterprises survey respondents responding positively to the streamlining of procedures by authorities. More than a half of respondents consider that the general rules for issuing licences, permits and authorizations comply, or rather comply with minimal standards of transparency and clarity. More than half of the enterprises representatives (58.5%) were also satisfied with the online platform to apply for licenses and permits. However on the subject of general regulation enterpris-



es representatives were still discouraged. They indicated that the current legal and regulatory framework and the time spent to comply with the regulation hampers business growth. More than half of the surveyed enterprise representatives thought that the existing legal framework disadvantages SMEs compared to large enterprises.

Lending activity was affected by the banking crisis of late-2014, seeing a sharp drop in activity in 2015, which severely weakened the banking system overall. In 2017 and 2018 new regulations on internal governance of banking institutions, and risk management came into force. A majority of enterprises respondents displayed concern about access to finance, with the survey revealing that business loans, and loan guarantees were quite difficult to obtain for formal small businesses. A majority of enterprises respondents found that the costs incurred by inadequate physical infrastructure, especially roads, were high.

Moldova has a number of key advantages in developing its ICT sector: labour costs are relatively low, and the existing infrastructure is of a generally high standard. Improvements to the road network, and railroads are required to improve the growth of sustainable enterprises. 44% of survey respondents said they incurred big costs due to inadequate physical infrastructure.

growth among female-owned firms remained lower between 2014 and 2016, than among male-owned firms. Concerning the adequacy of the support system for individuals looking to establish a new business, survey respondents answered that while legislative requirements were largely adequate other areas such as procurement opportunities were lagging. When asked to rank the factors that most hindered the development of enterprises in Moldova enterprises survey respondents expressed concerns about poor access to financing, political instability, lack of an adequately trained labour force, and poor quality of governance.

Following independence Moldova experienced one of the largest and longest-lasting losses of productive capacity among transition economies, which led to large scale migration of the working age population. Although government expenditure, literacy rates, and enrolment ratios are relatively good, they do not adequately convey the quality and efficiency of the education system. The low productivity of labour in Moldova reflects an incomplete transition from a planned economy dominated by agriculture and high informal employment. Survey respondents highlighted the need for skills development, and additional investment in tertiary and vocational education.

A majority of enterprises respondents surveyed thought that investment in human resource development by companies was low. 56.8% of enterprises survey respondents thought that there were significant skills deficits when asked about the availability of skilled workforce in the country, and the quality of the educational system. The demand for secondary and post-secondary vocational technical education is still quite low as the system is not well aligned with the needs of the market. Furthermore, the survey found that four out of five (86.9%) of employee respondents had health insurance, yet only three out of four (77.6%) indicated to have health benefits.

Social Elements

The long and medium term policy framework for the development of SMEs in Moldova is provided by the Small and Medium Enterprise Sector Development Strategy for 2012-2020, and the action plan for implementation overseen by the Ministry of Economy and Infrastructure. In recent years SME growth in Moldova has been affected by the recession in Russia and the banking crisis of 2014. Financial sector turmoil has also complicated the development of SME-specific financial products which would encourage longer grace periods, and promote the use of credit guarantees.

In Moldova female-owned businesses currently represent about 25% of all enterprises, and



Environmental Elements

Moldova's challenges of an environmental nature require attention. The Government of Moldova has made climate change a national priority, and it approaches this from the direction of emissions, as well as climate change adaptation and climate change related risk management. An Environmental Strategy for 2014-2023 was approved by the Government of Moldova which is aimed at integrating the principles of environmental protection, green economy development, and climate change adaptation in all sectors of the national economy.

Moldova is vulnerable to climate change, and the impact of climate change on agriculture should be a cause for concern, given the large share of the population that depends on agriculture. Short-term survival strategies and conditions of poverty in rural areas prevent this population segment from investing in sustainable practices, which increases the pressure on the natural resource base.

The findings of the EESE assessment were disseminated to representatives from government and social partners and validated during a workshop in September 2019. At this workshop, tripartite participants agreed on priority areas for action and developed an action plan on (i) the enabling legal and regulatory environment; (ii) education, training and lifelong learning, and (iii) social dialogue, for a more enabling environment for sustainable enterprise development in Moldova.

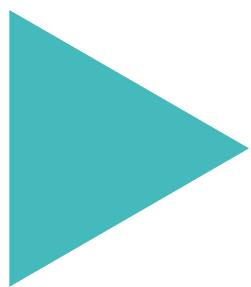
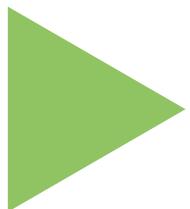
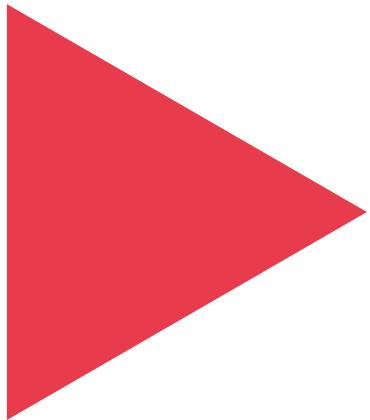
Assessment Results and Way Forward

The Moldova EESE Survey highlighted that sustainable enterprise development needs a multipronged approach. Good governance, social dialogue, and education, training and lifelong learning emerged as three key areas of concern among enterprises representatives, and the employees surveyed. The survey identified that bribery and corruption were major issues, with a high proportion of the enterprises respondents, 87.3%, considering that bribery and corruption represent major obstacles for the development of enterprises in Moldova. The survey highlighted the difficulty of accessing finance, for starting a small business. A majority of those surveyed identified the need for greater access to training, better education, and more support for business development in Moldova. Social dialogue also emerged as a key concern with 40% of enterprises respondents saying that they thought social dialogue was either little efficient or totally inefficient at national, sectoral and territorial levels.



Abbreviations and Acronyms

BBC	British Broadcasting Company	OHCHR	Office of the United Nations High Commissioner for Human Rights
CIA	Central Intelligence Agency	PAYE	Pay as You Earn
CRS	Congressional Research Service	SDGs	Sustainable Development Goals
CSO	Civil Society Organization	SMEs	Small and Medium-sized Enterprises
CSR	Corporate Social Responsibility	SOEs	State Owned Enterprises
CNSM	National Trade Union Confederation of Moldova	TVET	Technical and Vocational, Education and Training
EASE	Enabling Environment for Sustainable Enterprises	UN	United Nations
EPI	Environmental Performance Index	UNDP	United Nations Development Programme
FDI	Foreign Direct Investment	UNESCO	United Nations Educational, Scientific and Cultural Organization
FES	Friedrich-Ebert-Stiftung	UNICEF	United Nations Children's Fund
GDP	Gross Domestic Product	UNFPA	United Nations Population Fund
ICTs	Information and Communication Technologies	USAID	United States Agency for International Development
ILC	International Labour Conference	USD	United States Dollars
ILO	International Labour Organization	VAT	Value Added Tax
IT	Information Technology	WEF	World Economic Forum
ITU	International Telecommunication Union	WHO	World Health Organization
ITUC	International Trade Union Federation	WTO	World Trade Organization
MFI	Microfinance Institution		
NGO	Non-Governmental Organisation		
NRI	Networked Readiness Index		
ODI	Overseas Development Institute		





1. Introduction

The important role that the private sector plays in social and economic development led the International Labour Conference (ILC) to discuss the concept of sustainable enterprises in June 2007. The promotion of sustainable enterprises ensures that human, financial and natural resources are combined equitably. An environment conducive to the creation and growth of enterprises on a sustainable basis must take into account the three dimensions of sustainable development – economic, social and environmental – as interdependent and mutually reinforcing pillars.

The 2007 ILC adopted conclusions for the promotion of sustainable enterprises and identified 17 conditions for an enabling environment. An environment conducive to the creation and growth of sustainable enterprises combines the legitimate quest for profit with the need for development that respects human dignity, environmental sustainability and decent work. It underscores the principle that sustainable enterprises need sustainable societies and that business tends to thrive where societies thrive and vice versa.

The same conclusions invite the ILO to focus its interventions on practical responses, including tools, methodologies and knowledge sharing, which are relevant to the social partners in their activities. This is why the ILO has developed a methodology to assess the degree to which the 17 conditions for an enabling environment for sustainable enterprises are met in different countries. This report describes the implementation of such an assessment in Moldova and is part of a series of country reports on the same topic. The report covers the political, economic, social, and environmental situation of the enabling business environment in Moldova. The political area comprises four of the 17 conditions, the economic includes eight, the social four, and the environmental dimension consists of one condition.

Between 2012 and 2013, the ILO supported the National Employers' Confederation of Moldova

(CNPM) to conduct an assessment of the Enabling Environment for Sustainable Enterprises (EESE). Assessment findings have been published in an EESE assessment report, which was in turn condensed into a document which lists seven key business constraints: (1) unstable political climate and deficient relations with the state institutions; (2) ineffective social dialogue; (3) burdening regulatory framework; (4) deficient competition; (5) poor quality infrastructure; (6) low-skilled labour force; and (7) inflexible labour legislation. In September 2014, an agreement was signed between CNPM and the government based on which the parties committed themselves to collaborating on the improvement of taxation system, social security system, health insurance system, public procurement procedures, amendment of the Labour Code, eradication of informal economy and unfair competition. The ILO also assisted CNPM to develop position papers on the amendment of the labour code, social dialogue and the informal economy.

Several issues have been, or are in the process of being addressed since the previous EESE assessment took place and the political situation has stabilised. Yet there is still room for improvements. Therefore, ILO constituents agreed on the need to conduct a tripartite EESE assessment. Between 2018 and 2019, the enabling environment for sustainable enterprises in Moldova was assessed through a careful review of secondary data and findings from a national perception survey of workers and employers (including owners and managers of companies).

On 17 May 2018 a workshop took place to launch the tripartite EESE process in Moldova. Workshop participants agreed to focus the perception survey under the EESE assessment in Moldova on formal enterprises, and to also include workers in the perception survey. The survey examined the perception of employers or business owners and their employees with regard to enabling or obstructing conditions that micro, small, medium and large enterprises face with respect to the



business environment in Moldova. The findings from the survey were integrated into this EESE assessment to yield an evidence base and leverage the profile of the social partners to form common positions and to enter into policy dialogue to achieve policy change. At the workshop, a National Tripartite Technical EESE committee was created to coordinate the EESE assessment.

On 9 July 2018 a second workshop was held during which findings from secondary research were presented and ten priority conditions for the EESE perception survey were agreed on as follows: Good governance, Social Dialogue, Respect for International Human Rights and International Labour Standards, Sound and stable macroeconomic policy and good management of the economy, Enabling legal and regulatory environment, Rule of law and secure property rights, Fair competition, Access to financial services, Physical infrastructure, and Education, training and lifelong learning.

1.1 Survey Methodology

The ILO draft questionnaire to be used for the perception survey in Moldova was adapted based on the results of the two workshops held. Data was collected over a 10 week period starting from the end of October till the middle of December 2018. Perception surveys were conducted, in Romanian and Russian on two target groups: a sample of 400 employers / business owners and, a sample of 107 employees. Seven key informant interviews were conducted with representatives of various relevant bodies: representatives of the employers' associations, trade unions, governmental bodies, and experts from various organisations.

A team of interviewers was trained in data collection, including how to deal with questions and fill in the questionnaire responses. Special training was held for people responsible for monitoring the collection, organization and data processing at district and national levels. In order to ensure proper and accurate collection of data the tools were tested on a subsample of five companies from trade, agriculture and transportation sec-

tors, for the enterprises questionnaire. Similar testing was carried out for the employees' questionnaire, and adjustments were made based on the feedback.

Based on the information gathered from the National Bureau of Statistics (NBS), in 2018 there were around 52,300 active companies. This number was been taken as basis for identifying the sample for the assessment to be conducted, with stratification along area, size, region, and taxes paid. Enterprises were randomly selected from the list of units from each pre-defined stratified sub-group (see tables below), while employees for the survey were randomly selected from the list of employees using tables with random numbers.

TABLE 1 - TABLE 2

Over the process of conducting the survey it was found that representatives or larger enterprises were more difficult to access, and were hesitant to delegate filling out the questionnaire. Representatives of micro enterprises showed low willingness to participate in the data collection process, and expressed concern regarding the use of the data despite repeated assurances about the confidentiality of responses.

The final list of participating enterprises, by size and type of property, is as follows. **TABLE 3 - TABLE 4**

Those taking the enterprises survey were largely owners or CEOs, with only 5 respondents of the 400 strong sample not identifying as either the owner or the CEO.

The distribution of the ages of representatives of enterprises, and breakdown by gender are given below. These are important because gender, and age have a bearing on the outlook respondents might have. **TABLE 5 - TABLE 6**

Within the framework of the EESE assessment a survey of employees from various companies was also conducted. 107 employees, representing different areas of activity were interviewed, and their profile is as follows in the table below. **TABLE 7**



Of employees interviewed 44.9% (48) were male and 55.1% (59) were female. The distribution by age and level of education is given in the tables below. **TABLE 8 - TABLE 9**

TABLE 1: Distribution of Surveyed Enterprises by Region

Region	Number of Enterprises	Percent
Chisinau Municipality	244	61.0
Balti Municipality	26	6.5
Northern Region	33	8.3
Central Region	64	16.0
South Region	33	8.3
Total	400	100.0

TABLE 2: Distribution of Surveyed Enterprises by Sector

Sector	Number of Enterprises	Percent
Agriculture, forestry and fishing	38	9.5
Manufacturing industry	43	10.8
Construction	32	8.0
Wholesale and retail trade	150	37.5
Transportation and storage	25	6.3
ICT	19	4.8
Services	93	23.3
Total	400	100.0

TABLE 3: Distribution of Surveyed Enterprises by Size

Size of the Enterprise	Initially planned sample	Actual Number of Enterprises	Percent
Micro (9 employees and less)	305	258	64.5
Small (between 10 and 49 employees)	47	102	25.5
Medium (between 50 and 249 employees)	27	33	8.3
Large (more than 250 employees)	21	7	1.8
Total	400	400	100.0

TABLE 4: Distribution of Surveyed Enterprises by Type of Property

Type of Property	Number of Enterprises	Percent
Private Capital	350	87.5
State Capital	19	4.8
Foreign Capital	15	3.8
Mixed Capital	14	3.5
Other	2	0.4
Total	400	100.0

TABLE 5: Distribution of Surveyed Enterprises Representatives by Age

Age	Number of Respondents	Percent
18-24	14	3.5
25-34	78	19.5
35-44	124	31.0
45-54	104	26.0
55-60	41	10.3
60+	39	9.8
Total	400	100.0

TABLE 6: Distribution of Surveyed Enterprises Representatives by Gender

Sex	Number of Respondents	Percent
Male	253	63.3
Female	147	36.8
Total	400	100.0

TABLE 7: Distribution of Surveyed Employees by Sector

Sector	Frequency	Percent
Agriculture, forestry and fishing	8	7.5
Manufacturing industry	12	11.2
Construction	7	6.5
Wholesale and retail trade	28	26.2
Transportation and storage	9	8.4
ICT	5	4.7
Services	33	30.8
Other	5	4.7
Total	107	100.0

TABLE 8: Distribution of Surveyed Employees by Age

Age	Frequency	Percent
<25 years	12	11.2
25-35 years	36	33.6
35-45 years	26	24.3
45-55 years	18	16.8
55-65 years	13	12.1
> 65 years	2	1.9
Total	107	100.0

TABLE 9: Distribution of Surveyed Employees by Level of Education

Level of Education	Frequency	Percent
Gymnasium / high school	12	11.2
Vocational / technical school	20	18.7
University	69	64.5
Post graduate	5	4.7
Other	1	0.9
Total	107	100.0

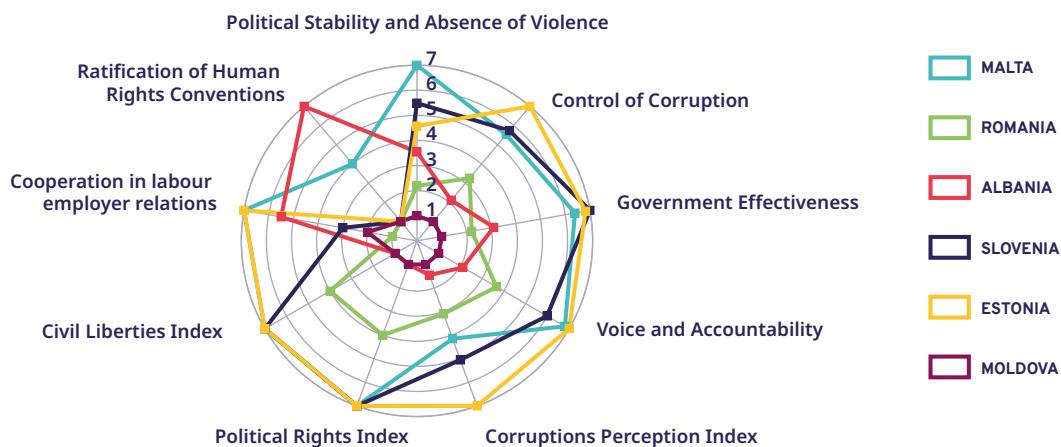
1.2 Limitations of the Survey

Like in any other research the approach undertaken to carry out the EESE Survey has some limitations. The most challenging issue related to the data collection process was the fact that the willingness of a very big part of the companies' representatives to participate in the survey was very poor. Often, the operators had to call more than 30 companies representatives to get at least one acceptance to participate in the exercise. The main reason evoked refers to the uncertainty regarding the possible consequences, and this results in a certain amount of selection bias in the sample, as there is likely something common among those companies who consented to letting representatives be surveyed.

Microenterprises were a particularly difficult group to reach. Due to the difficulty in accessing the needed number of micro enterprises (as identified in the initial sampling), many of them were replaced with other small enterprises from the same sectors.

2. Political Elements

Indicators assessing Political Elements of an Enabling Environment for Sustainable Enterprises*



* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- Parliamentary elections were held in Moldova on 24 February 2019.
- Moldova faces the challenges of building a healthy democracy, and economy in the context of fragile institutions and limited human capital.
- Laws are often selectively enforced against political opponents and civil society members.
- According to Freedom House civil society is active in Moldova, but relations between the government and the civic sector continue to deteriorate.
- The Moldova EESE Survey investigated how often bribes were required. More than half of the respondents thought that enterprises similar to their own had to offer bribes to supervisory authorities.



- The constitution guarantees the right to establish or join a trade union.
- 55.1% of enterprises respondents in the survey felt that they were consulted when management made important changes to a company's activity, though other indicators of social dialogue processes were less promising.
- On how well labour standards are promoted by the government 27.5% of enterprises respondents thought this was fairly or very well, while 60.3% thought this was not very well, or not at all.
- Moldova's legal framework provides for the protection of human rights but the implementation of existing laws is problematic.
- A Universal Periodic Review was conducted in 2016, and a new National Human Rights Action Plan for 2018-2022 was adopted.

2.1 Peace and Political Stability

Peace and political stability are critical to the development of sustainable enterprises, and in the case of Moldova years of political instability have had an impact on the economy, as well as social and environmental indicators, which help measure the quality of life and work in the country. Moldova's economy relies heavily on agriculture, as well as remittances from Moldovans working in Europe, Israel, Russia and elsewhere¹.

Major political and social transformations have occurred in Moldova in recent decades. Formerly part of the Soviet Union, Moldova became independent in 1991, though Russian forces have remained in the region of Transnistria², which is among the more industrialised regions of the country and has unilaterally claimed independence since 1990³. Moldova is landlocked, located between Romania and Ukraine, with most people speaking Moldovan (which is very similar to Romanian) or Russian⁴.

Moldova is a parliamentary republic; a new constitution, replacing that of 1978 was adopted in 1994, with direct presidential elections as of 2016⁵. In 2017 a controversial law was passed by which the existing proportional electoral system would be replaced by a mixed method, allowing voters to cast votes for constituency candidates as well as party lists⁶. Key international organizations, including the Venice Commission of the Council for Europe, and the Organization for Security and Cooperation in Europe (OSCE), have criticized the law⁷. Moldova tends to have competitive elections, which is an accomplishment in comparison with some other former Soviet states⁸.

1 CIA World Factbook, 2018

2 Ibid.

3 BBC, 2 January 2018.

4 CIA World Factbook, 2018.

5 Ibid.

6 Reuters, 20 July 2017.

7 Freedom House, 3 July 2018.

8 Carnegie Endowment for International Peace, 23 May 2017.



Moldova has been ruled by a coalition of pro-EU parties since 2009, but has been hit by economic crises, political, and corruption scandals; in 2015 a former Prime Minister was arrested over corruption charges⁹. President Dodon became chief of state in 2016, though he has since been temporarily suspended multiple times by the Moldovan Constitutional Court¹⁰. In June 2018 a Chisinau court invalidated the outcome of elections for the mayor of the capital and this decision was upheld by the Court of Appeal and Supreme Court of Justice of Moldova; the involvement of the courts is allegedly politically motivated, and can be seen as a sign of the weakening of democratic progress¹¹.

Post-independence Moldovan politics were dominated by the Communist Party until the parliamentary elections of 2009, after which coalition politics have been led to frequent shifts in alliances, upheaval, and constitutional crises¹². Elections were held in 2014, when pro-European Union (EU) parties won a narrow majority over parties supporting closer ties with Russia¹³. By the end of 2017, the Democratic Party had more than doubled its share of seats and become the largest party in Parliament through a series of defections from other political parties. The Socialist Party remained the largest opposition party.

The Moldovan political climate is highly influenced by events in the region, and since the mass protests in 2014 in Ukraine, which ousted the President, the degree of Russian influence over the region in general has been a subject of renegotiation¹⁴. The last parliamentary elections¹⁵ were held in Moldova on 24 February 2019. The elections were held under a mixed electoral system, replacing the closed-list proportional system used in Moldova at all previous parliamentary elections since independence. No party emerged with a

clear majority, so months of negotiations followed the election result. In June 2019,¹⁶ the Constitutional Court dismissed president Igor Dodon. The prime-minister Pavel Filip appointed as acting President announced the dissolution of parliament. However, against a background of competing judgements about the legality of proceedings, and external pressures the acting President resigned, and the new parliament has taken steps to reinvestigating the banking fraud, and appointing technocratic ministers to different posts but the coalition is fragile¹⁷.

The country was nearly bankrupted after USD 1 billion, an amount equal to about one eighth of the annual GDP, was stolen from the banking system in 2014, after which extensive financial reforms were implemented¹⁸. Large international banks closed accounts holding foreign currency¹⁹. The shock to the economy led to increased inflation, depreciation of the currency (Moldovan leu, henceforth abbreviated to MDL), a short recession²⁰ as well as waves of protests against corruption and the government²¹.

In 2016 a three-year USD 179 million IMF program was approved, and reforms and regulations introduced in line with the agreement primarily targeting improvements to the banking environment, which, along with assistance programs from the EU, World Bank, and Romania, have helped to address economic instability to some degree²². In 2018 foreign investment into banks revived after over a decade²³ and the IMF predicted 3.7 GDP growth in 2018²⁴.

When asked about to what extent periods of instability affected the development of enterprises in

9 Balkan Insight, 29 May 2017.

10 CIA World Factbook, 2018.

11 Freedom House, 3 July 2018.

12 BBC, 2 January 2018.

13 BBC, 1 December 2014.

14 BBC, 1 December 2014.

15 Balkan Insight, 29 May 2017.

16 Euronews, 12 June 2019.

17 Ibid.

18 Reuters, 12 June 2018.

19 Ibid.

20 CIA World Factbook, 2018.

21 BBC, 21 January 2016.

22 CIA World Factbook, 2018.

23 Bloomberg, 30 January 2018.

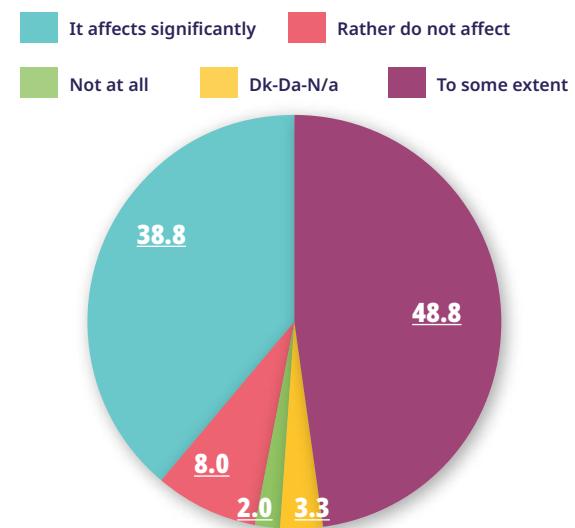
24 Ibid.



Moldova 38.8% of the enterprises representatives mentioned that political instability significantly affected the development of enterprises and other 48% said it did to some extent. 10% mentioned that such influence is insignificant or non-existent. **CHART 1**

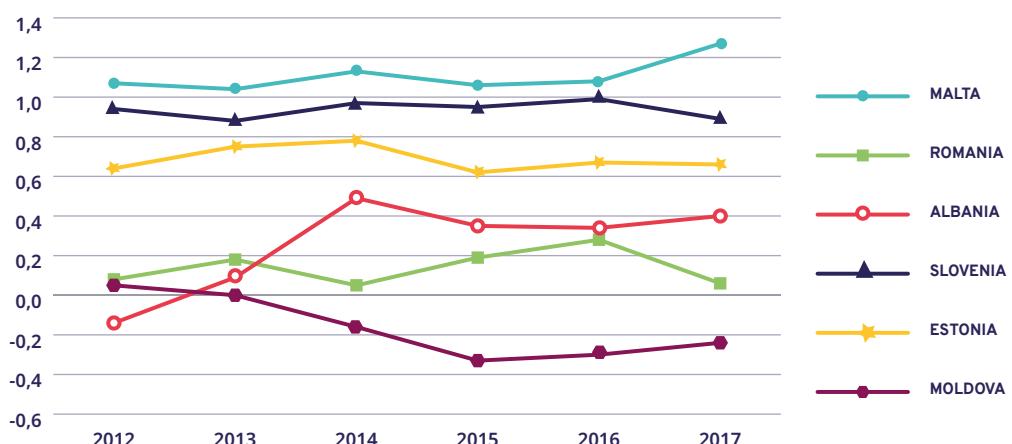
The Political Stability and Absence of Violence indicator presents the likelihood that the Government will be destabilised by unconstitutional or violent means, including domestic violence and terrorism and estimates governance measured on a scale from approximately -2.5 to 2.5 with higher values corresponding to better governance. Based on this World Bank data the political situation in Moldova in 2012 was at 0.05, which deteriorated to -0.16 in 2014, -0.33 in 2015 and -0.24 in 2017, reflecting the upheaval caused by financial, economic and political shocks. This is the lowest value among the comparison countries: in 2017 Malta performed best at an estimate of 1.27, with the next highest after Moldova being Romania at 0.06. **FIGURE 1**

CHART 1: To what extent does political instability affect the development of enterprises?



Source: Moldova EESE Survey

FIGURE 1: Political Stability and Absence of Violence



Source: World Bank, Worldwide Governance Indicators



KEY INDICATORS

Political Stability and Absence of Violence

The likelihood that the Government will be destabilized by unconstitutional or violent means, including domestic violence and terrorism.

Source: World Bank Worldwide Governance Indicators

Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.

	2012	2013	2014	2015	2016	2017
Moldova	0.05	0.00	-0.16	-0.33	-0.30	-0.24
Estonia	0.64	0.75	0.78	0.62	0.67	0.66
Slovenia	0.94	0.88	0.97	0.95	0.99	0.89
Albania	-0.14	0.09	0.49	0.35	0.34	0.40
Romania	0.08	0.18	0.05	0.19	0.28	0.06
Malta	1.07	1.04	1.13	1.06	1.08	1.27

2.2 Good Governance

Good governance, the absence of corruption, and efficient institutions foster entrepreneurship and promote private sector growth and development. Moldova faces the challenges of building a healthy democracy, and economy in the context of fragile institutions and limited human capital. The post-Soviet nature of Moldova's political context, and nascent nature of its democratic processes, compound the difficulty of bolstering the country's economy, infrastructure and political institutions²⁵.

In 2014 Moldova signed an Association Agreement with the EU, committing to the path of European integration and necessary reforms, as well as an agreement on a Deep and Comprehensive Free Trade Area (DCFTA)²⁶. Transnistria is also part of the DCFTA agreement. Moldova is a member of NATO's Partnership for Peace program, but neutrality is written into the constitution and joining NATO is thus not a possibility²⁷. Neither the Association Agreement nor the DCFTA accord offers Moldova a path to membership in the EU but they codify the country's commitment to more difficult reforms and offer trade advantages, assuming

Moldova can take the necessary steps to meet the conditions stipulated in those agreements²⁸.

Corruption has been a major problem since independence, which combined with a contentious political environment, frequent government changes and low levels of economic growth, has been a major impediment to the smooth functioning of the government, and development of the private sector and investment²⁹. The government lacks transparency, and public officials commit acts of corruption with few repercussions³⁰. The independence of the judiciary from political elites is limited³¹. This has implications for the business environment as well. Corruption, government dysfunction and the lack of economic growth are the main reasons behind emigration to other countries³². This population decline is projected to continue. In 2012 Moldova was ranked at 36, on the Corruption Perceptions Index, where 0 is highly corrupt, and 100 is highly clean. In 2017 this had gone down to 31³³.

In 2016 two specialized prosecution offices were created to combat corruption and organized crime: the Anti-Corruption prosecution Office of

28 Ibid.

29 Ibid.

30 GAN Business Anti-Corruption Portal, August 2017.

31 Ibid.

32 Carnegie Endowment for International Peace, 23 May 2017.

33 Transparency International, 2018.

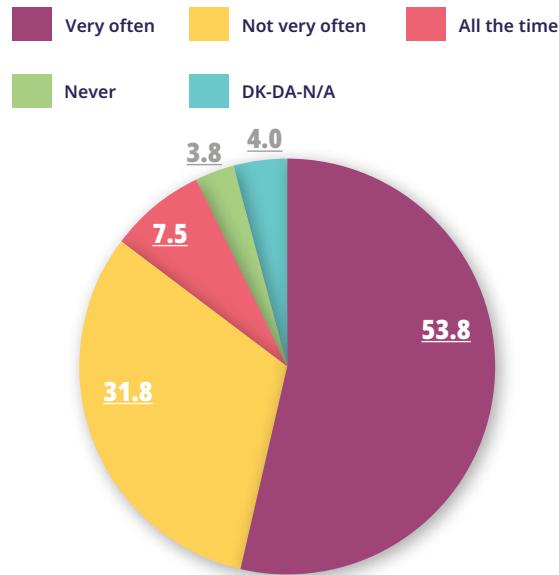
25 Carnegie Endowment for International Peace, 23 May 2017.

26 Ibid.

27 Carnegie Endowment for International Peace, 23 May 2017.

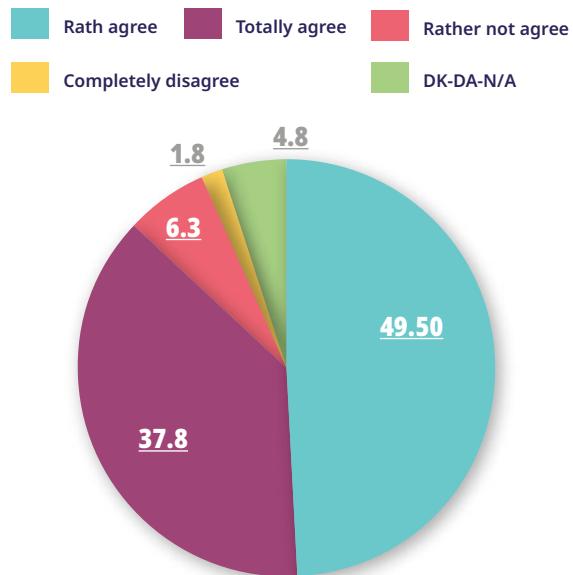


CHART 2: How often does the application of laws discourage enterprises?



Source: Moldova ESEE Survey

CHART 3: To what degree do you agree that bribery and corruption present major obstacles for the development of enterprises in Moldova?



Source: Moldova ESEE Survey

Moldova which is tasked with investigating and prosecuting corruption, bribery and abuse of power by public servants, as well as the Prosecutor's Office on Combatting Organized Crime and Special Cases which investigates and prosecutes tax evasions, smuggling, intellectual property crimes, trafficking, and so on³⁴. Other reforms to the public integrity system, including creating better reporting mechanisms, new agencies to oversee the financial disclosures and conflicts of interest of public officials, legislation to prevent the misuse of international assistance funds, have been introduced³⁵.

Several high profile corruption and tax evasion cases have been prosecuted in recent years, but there is still a lot of progress to be made. Laws are often selectively enforced against political opponents, and civil society members. In 2017, following an evaluation by Transparency International, a National Integrity and Anticorruption Strategy for 2017-2020 was published, which aims at promoting an integrity climate among civil servants at all levels, includes civil society organizations (CSOs), and addresses the private sector as well³⁶. Despite many improvements to the legal framework implementation remains weak due to the continuing politicization of public institutions and regulatory agencies³⁷.

Moldova has a civil law system; the legal framework consists of the constitution, laws passed by the parliament, and normative acts issued by the government and other public authorities³⁸. Justice reform is crucial, but the appointment procedure for judges and key officials remains a cause for concern³⁹. Relative to other branches of government local public administration is one of the more trusted institutions in Moldova, but local

34 U.S Department of State, July 2018.

35 Ibid.

36 Ibid.

37 Freedom House, 3 July 2018.

38 CIA World Factbook, 2018.

39 Freedom House, 2018.



governments are increasingly used as political instruments⁴⁰.

According to Freedom House civil society is active in Moldova, but relations between the government and the civic sector continue to deteriorate⁴¹. There have been attempts to mandate restrictions on funding from external sources for CSOs, and political attacks on CSOs, which have contributed to the lack of confidence in the government⁴².

Media in Moldova is quite highly politicised, which raises questions about the freedom of the press⁴³. A 2015 law which required media companies to disclose the names of their owners led to the disclosure that the media market was highly concentrated in a few hands, with strong links to political parties⁴⁴. The legal framework remains outdated, despite support from civil society and international organizations to do so, and it being marked as a priority under the Association Agreement with the EU⁴⁵.

The Moldova EESE Survey investigated aspects of good governance pertaining to enterprises by asking the questions discussed below. When asked how often in their opinion it happened that the interpretation and practical application of laws and normative acts discouraged enterprises from Moldova, 61.3% of enterprises respondents thought this was a concern with 53.8% saying this happened often, and 7.5% saying all the time. 31.8% of survey respondents thought the practical application of laws did not often discourage enterprises while 3 % thought this never happened, and 4% did not answer, or did not know the answer. [CHART 2](#)

The Moldova EESE Survey explored the degree to which bribery and corruption represent major obstacles for the development of enterprises in Moldova. A very high proportion of the enterprises respondents, 87.3%, thought that bribery and corruption represent major obstacles for the development of enterprises in Moldova. Specifically, almost half of the representatives of enterprises, 49.5%, somewhat agreed and 37.8% totally agreed that these were major obstacles, with only 1.8% completely disagreeing. [CHART 3](#)

When asked if they agreed that the GoM was engaged in combating bribery and corruption the representatives of enterprises surveyed expressed pessimism. Only 3% totally agreed that the government was fully engaged in this, with 26.5% rather agreeing that this may be the case while 51% rather did not agree, 15.3% completely disagreed that the GoM was committed to anti-corruption efforts. [CHART 4](#)

The Moldova EESE Survey investigated how often bribes were required. More than half of the enterprises respondents thought that enterprises similar to their own had to offer bribes in relation to supervisory authorities. Specifically, 16.5% of the representatives offer very often, other 39.5% do it rarely and 2.3% - permanently. 24.8% do not offer bribes to solve such issues. [CHART 5](#)

Enterprises survey respondents were asked for their opinion about which situations most often required bribes, for enterprises similar to those that they managed. 25.8% of enterprises representatives said that when inspected by tax bodies bribes were required very often or all the time, while 29.5% said they were never required. 36% of respondents said that bribes were never needed to obtain licenses, while a similarly large 34% said the same about obtaining operating permits, and 30.3% said they never needed bribes to certify quality. [CHART 6](#)

When asked about how efficient state bodies were, that worked on combating corruption on having received complaints from enterprises 35% of enterprises survey respondents thought that they were rather inefficient, and 13% found them to be not at all efficient. Only 3% of those surveyed

⁴⁰ Freedom House, 2018.

⁴¹ Freedom House, 3 July 2018.

⁴² Ibid.

⁴³ Foreign Policy Research Institute, 13 September 2017.

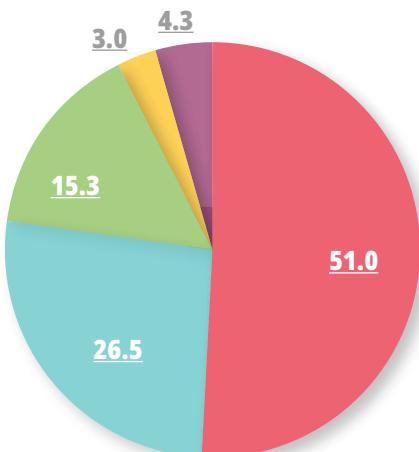
⁴⁴ Ibid.

⁴⁵ Freedom House, 3 July 2018.



CHART 4: Do you agree that the Government of Moldova is engaged in combating bribery and corruption?

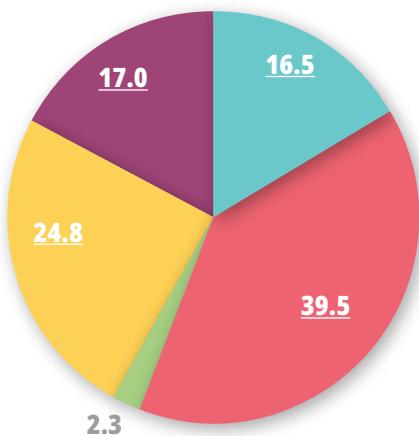
Rather not agree	Rather agree
Completely disagree	Totally agree
DK-DA-N/A	



Source: Moldova EESE Survey

CHART 5: How often are bribes felt to be necessary in relation to supervisory authorities?

Not very often	Never	Very often
All the time	DK-DA-N/A	



Source: Moldova EESE Survey

thought they were very efficient, with a further 35% finding them rather efficient. **CHART 7**

The Moldova EESE Survey also asked about how important it was for enterprises to have political connections in order to benefit from state support programs, in order to assess the degree of political patronage required for enterprises to procure state support. Overall political connections were thought to play a role in terms of access to state support programs. 16% of enterprises respondents thought it was very important to have political connections, while a further 35.5% thought it was rather important. Only 12% of respondents thought political connections were not at all important, with 19.3% thinking they were not really important. **CHART 8**

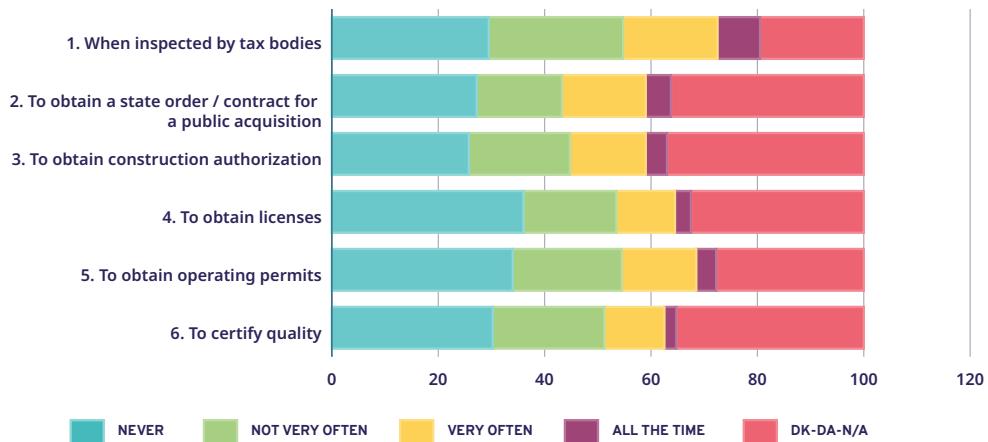
The indicator "Government Effectiveness" measures the quality of public services, the capacity of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the Government's commitment to such policies.

In a range of values from -2.5 to 2.5 with higher values indicating better performance, Moldova in 2017 recorded a value of -0.51 which is the lowest among all the countries used for comparison. In 2017 Estonia and Slovenia had the highest score at 1.12, and 1.17 respectively. In Moldova between 2012 and 2014 values seemed to improve indicating an improvement in governance, but this dropped again, likely reflecting financial and political upheaval stemming from the banking crisis, but values are improving again. **FIGURE 2**

The Corruption Perceptions Index measures the perceived levels of public-sector corruption as seen by business people and country analysts in a given country and is a composite index, drawing on different expert and business surveys. The scores are on a scale from zero (highly corrupt) to a hundred (highly clean). As the figure above shows according to this indicator the situation in Moldova is not very positive; Moldova is the lowest among the countries used for comparison. Since 2013 the figures have worsened slightly, but efforts to address corruption and initiating good



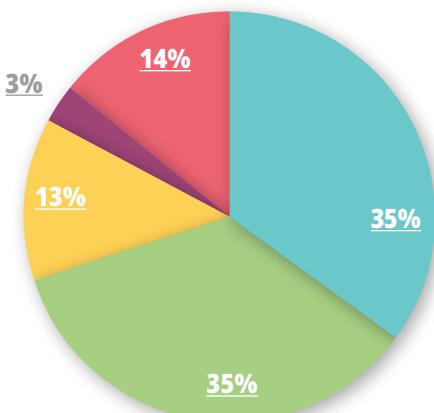
CHART 6: In which situations are bribes most often offered?



Source: Moldova EESE Survey

CHART 7: How efficient are anti-corruption bodies at dealing with complaints from enterprises?

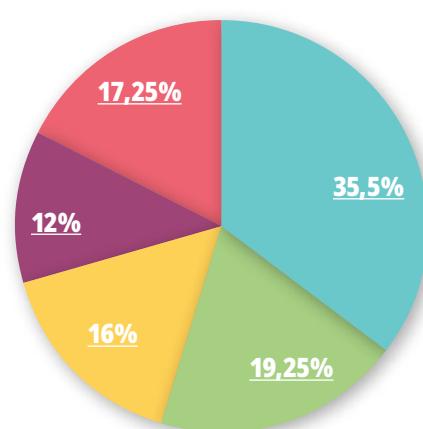
Rather efficient	Rather inefficient
Not at all efficient	Very efficient
DK-DA-N/A	



Source: Moldova EESE Survey

CHART 8: How important is it to have political connections in order for an enterprise to benefit from state support programs?

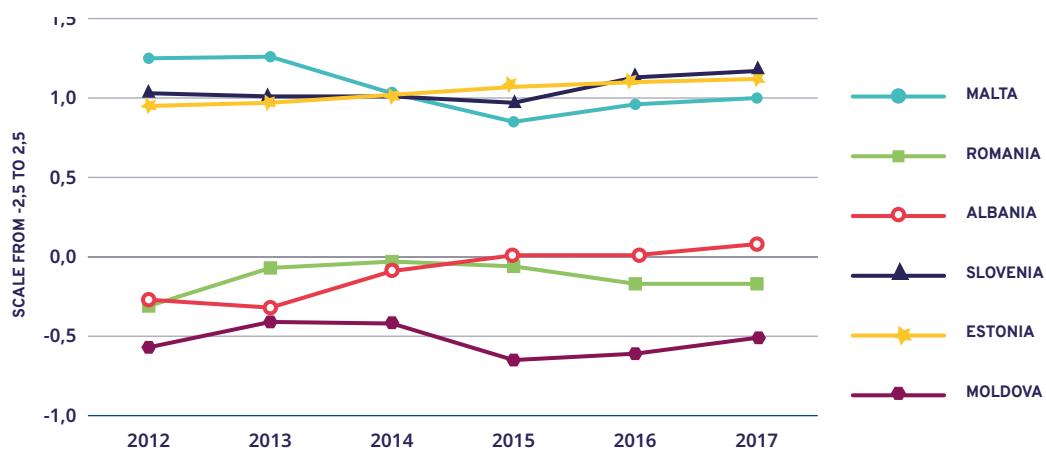
Rather important	Not really important
Very important	At all important
DK-DA-N/A	



Source: Moldova EESE Survey

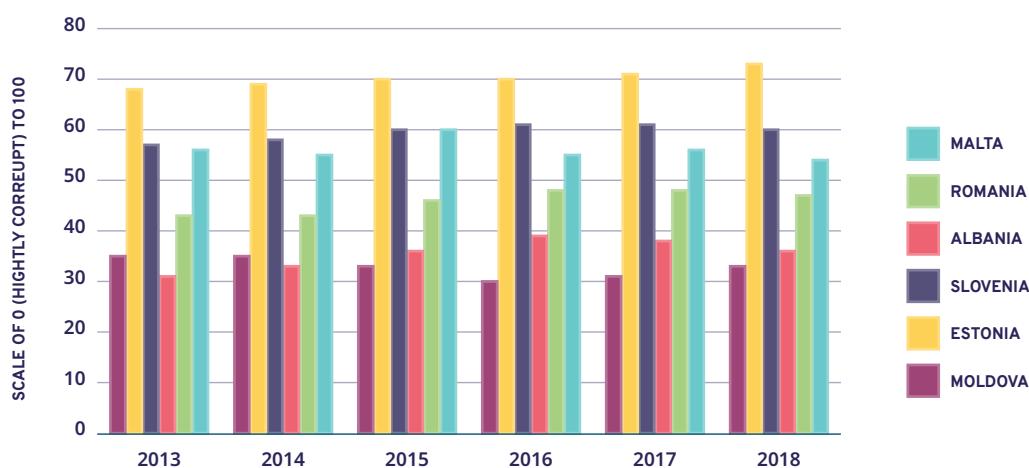


FIGURE 2: Government Effectiveness



Source: World Bank, Worldwide Governance Indicators.

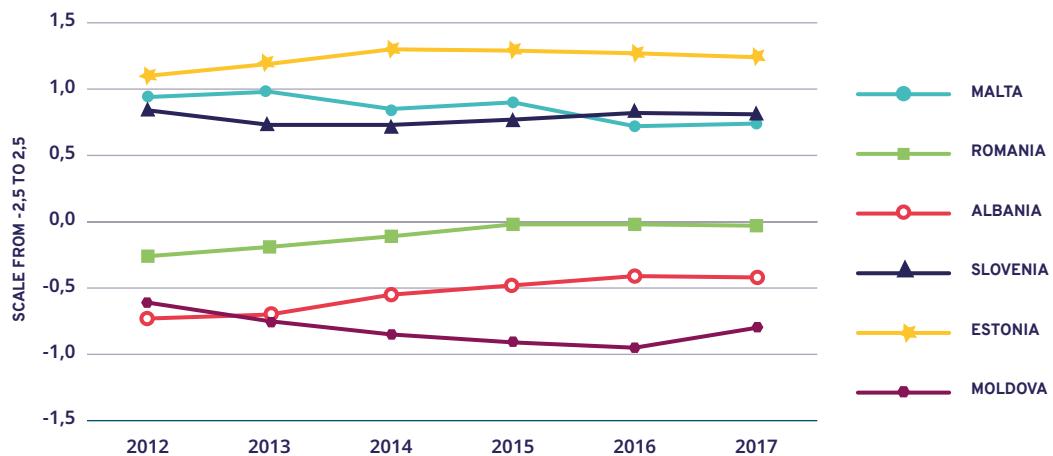
FIGURE 3: Corruption Perceptions Index



Source: Transparency International Database



FIGURE 4: Control of Corruption



Source: World Bank, Worldwide Governance Indicators.

governance may be paying off as we have seen the index rise slightly between 2017 and 2018. Albania performed next poorest while Estonia and Slovenia had the best values. **FIGURE 3**

The figure 4, Control of Corruption, shows the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests. Estimates of governance are measured on a scale from approximately -2.5 to 2.5 where higher values correspond to better governance. Based on this, it can be concluded that the Control of Corruption indicator for Moldova is low when compared to other countries subject to this report, by a sizeable proportion. In 2017 Moldova was at -0.80, having dropped from -0.61 in 2012. For comparison in 2017 the best perfor-

mance of the given countries was by Estonia at 1.24, and the next lowest to Moldova was Albania at -0.42. **FIGURE 4**

The “Voice and Accountability” index 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 governance. Moldova scores most poorly on this index at -0.03 in 2017, having dropped from 0.01 in 2014. In comparison, in 2017 Estonia and Malta ranked best at 1.21 and 1.17, followed by Slovenia at 1.00, Romania at 0.52 and Albania at 0.20.



KEY INDICATORS

Control of Corruption

The extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.

Source: World Bank, Worldwide Governance Indicators

	2012	2013	2014	2015	2016	2017
Moldova	-0.61	-0.75	-0.85	-0.91	-0.95	-0.80
Estonia	1.10	1.19	1.30	1.29	1.27	1.24
Slovenia	0.84	0.73	0.73	0.77	0.82	0.81
Albania	-0.73	-0.70	-0.55	-0.48	-0.41	-0.42
Romania	-0.26	-0.19	-0.11	-0.02	-0.02	-0.03
Malta	0.94	0.98	0.85	0.90	0.72	0.74

Corruption Perceptions Index (CPI)

The Transparency International CPI measures the perceived levels of public-sector corruption as seen by business people and country analysts in a given country and is a composite index, drawing on different expert and business surveys. 0 is highly corrupt while 100 is highly clean.

Source: Transparency International

	2013	2014	2015	2016	2017	2018
Moldova	35	35	33	30	31	33
Estonia	68	69	70	70	71	73
Slovenia	57	58	60	61	61	60
Albania	31	33	36	39	38	36
Romania	43	43	46	48	48	47
Malta	56	55	60	55	56	54

Government Effectiveness

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.

Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.

Source: World Bank, Worldwide Governance Indicators

	2012	2013	2014	2015	2016	2017
Moldova	-0.57	-0.41	-0.42	-0.65	-0.61	-0.51
Estonia	0.95	0.97	1.02	1.07	1.10	1.12
Slovenia	1.03	1.01	1.01	0.97	1.13	1.17
Albania	-0.27	-0.32	-0.09	0.01	0.01	0.08
Romania	-0.31	-0.07	-0.03	-0.06	-0.17	-0.17
Malta	1.25	1.26	1.03	0.85	0.96	1.00

Voice and Accountability

The extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.

Source: World Bank, Worldwide Governance Indicators

	2012	2013	2014	2015	2016	2017
Moldova	-0.03	-0.07	0.01	0.03	-0.02	-0.03
Estonia	1.11	1.12	1.17	1.19	1.21	1.21
Slovenia	1.00	1.00	0.96	0.99	1.01	1.00
Albania	0.02	0.05	0.14	0.16	0.17	0.20
Romania	0.32	0.31	0.43	0.49	0.54	0.52
Malta	1.17	1.16	1.18	1.20	1.20	1.17



2.3 Social Dialogue and Industrial Relations

Social dialogue with freedom of association and the right to collective bargaining is fundamental for the achievement of effective, equitable and mutually beneficial outcomes for all stakeholders and society at large. Labour relations in Moldova are regulated by the Labour Code of 2003, collective labour conventions at the national, territorial, branch and company level, and other special laws, such as those on wages⁴⁶. There are two laws addressing the issue of guaranteed minimum wages: the first of these sets a national minimum wage for all enterprises, institutions, organizations and legal entities, while the second applies specifically to the private sector⁴⁷. Between 2003 and 2015 social partners negotiated 15 collective agreements at the national level⁴⁸.

A number of bodies have been established to regulate industrial relations and social partnership, in conformity with article 25 of the Labour Code, namely the National Commission for Consultations and Collective Bargaining (NCCCB) at the national level, made up of 18 members and 12 deputies, appointed by social partners and government on parity basis and similar commissions at the branch and territorial levels⁴⁹. Commissions for social dialogue between employers and elected workers' representatives are established at the enterprise level, with a mandate to arrive at company-level collective labour agreements and to both anticipate, as well as mitigate conflicts which may arise⁵⁰. The NCCCB is also an advisory body to the government on laws and regulations in the field of labour relations, employment, pension and disability insurance, and OSH⁵¹.

Despite having made significant progress since its establishment, the NCCCB still faces challeng-

es in terms of influence and impact over policy and legislation processes⁵². Tripartite dialogue at the local level remains modestly developed, and though commissions for collective bargaining have been established at the local level capacity building and direction for future development is required⁵³. There is a lack of organised social partners. The weakness and absence of employers' organizations in some sectors, and of trade unions in private enterprises, do not allow for the development of collective bargaining processes, or the conclusion of collective agreements at the sectoral level⁵⁴.

The constitution guarantees the right to establish or join a trade union. Trade unions have a strong presence in state-owned enterprises (SOEs), but are less active and effective at negotiating for minimum wages and basic worker rights at smaller companies⁵⁵. A new Labour Code is being discussed to incorporate EU directives, and to make the legislative framework better equipped for a modernized labour market, skills development and vocational education training reform⁵⁶. In 2017 Parliament approved amendments to the existing Labour Code covering rules on temporary labour interruption, technical unemployment, guarantees and compensation granted to employees who combined work with studies, and termination allowances⁵⁷.

The Moldovan General Federation of Trade Unions has been affiliated with the International Confederation of Free Unions (ICFU) since 1997⁵⁸. In 2000 the Moldovan General Federation of Trade Unions split into two separate entities, but these merged in 2007 to form the National Trade Union Confederation (CNSM) currently the apex workers' organisation, which has been a member of the Inter-

46 PwC, 2017.

47 ILO, 21 December 2017.

48 Ibid.

49 ILO, 2016.

50 ILO, 2016.

51 Ibid.

52 Ibid.

53 Ibid.

54 Ibid.

55 U.S. Department of State, July 2018.

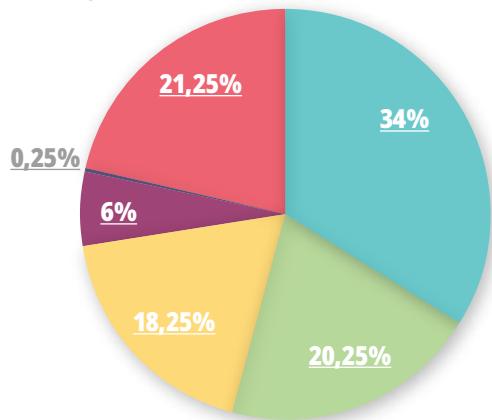
56 Ibid.

57 PwC, 21 August 2017.

58 U.S. Department of State, July 2018.

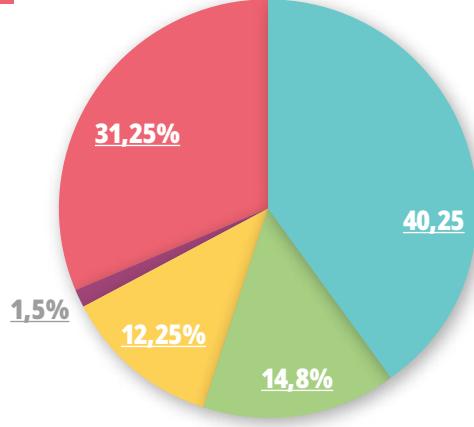


CHART 9: To what extent do citizens have the freedom to create and join labour organizations



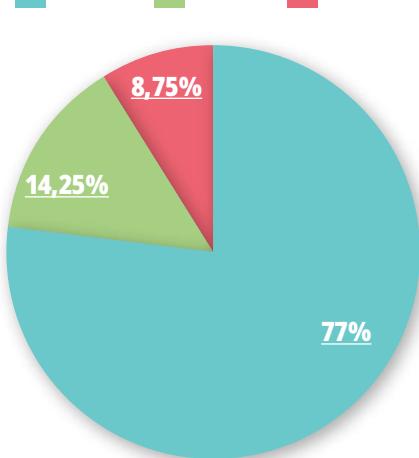
Source: Moldova EESE Survey

CHART 11: How cooperative is the Government with its social dialogue partners in removing major difficulties in the activity of the enterprises?



Source: Moldova EESE Survey

CHART 10: Is your enterprise a member of an employers' association?



Source: Moldova EESE Survey

national Trade Union Confederation since 2010⁵⁹. CNSM consist of 25 branch federations, comprising over 350,000 trade union members⁶⁰.

The national level employers' organization is the National Confederation of Moldovan Employers (CNPM); it brings together 27 members including 15 employers' federations and associations, and 12 enterprises which operate in key sectors of the economy⁶¹.

The Moldova EESE Survey asked about the extent to which citizens have and enjoy the freedom to create and join labour organizations (trade unions). According to the opinions expressed by the enterprises respondents, citizens enjoy relatively

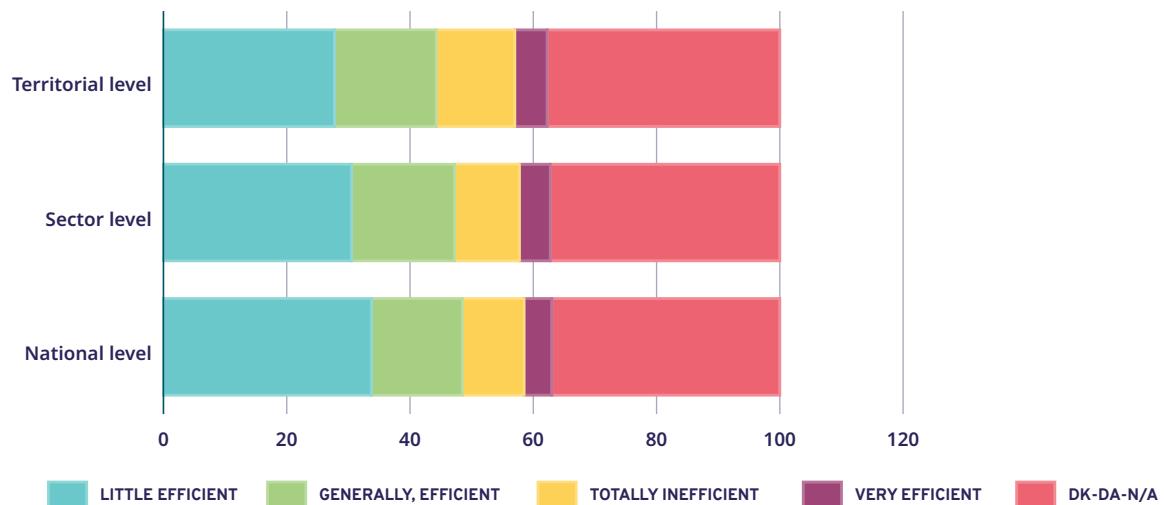
59 Ibid.

60 National Trade Union Confederation of Moldova.

61 CNPM, 2018



CHART 12: How efficient is the social dialogue conducted through the tripartite committees at different levels?



Source: Moldova ESEE Survey

high freedom to create and join labour organisations. 20.3% of respondents thought there was a high level of freedom, while 34% thought there was moderate freedom. 18.3% found that there was low freedom to join labour organizations, 6% thought there was a very high level of freedom (no restriction on creating or joining organisations), and 21.3% did not know or want to answer the question. **CHART 9**

When asked if their enterprise was a member of an employers' association 77% of enterprises respondents said no, while 14.3% said yes. The difference was even larger when the question was about trade unions at their enterprise; 82.5% of enterprises represented did not have trade unions at them, which may be due to the fact that many of them are micro and small enterprises, while 9.3% of those surveyed did in fact have trade unions. When asked about how often social dialogue was used at their enterprises 38.8% of enterprises representatives surveyed replied this happened whenever necessary, 19.8% said rarely, 14.5% said this happened sometimes and 11.3% reported that this never happened. **CHART 10**

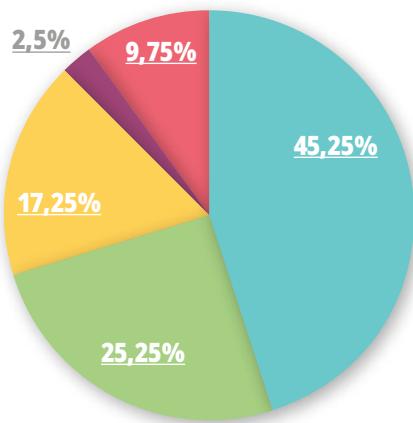
Survey respondents from enterprises were asked for their opinion on how cooperative the government was with its social dialogue partners – employers' association and trade unions – in removing major difficulties in the activity of the enterprises. 40.3% of respondents said that they found the government to be only a little cooperative, while 14.8% found them to be completely uncooperative. 31.3% of respondents would not, or did not say, while 12.3% of respondents found the government to be quite cooperative, and 1.5% found them to be very cooperative. **CHART 11**

Social dialogue is considered to be efficient if it contributes to removing major difficulties from the functioning of and to the development of the enterprise. Enterprises respondents were asked for their opinion of how efficient social dialogue is, when conducted through the tripartite committees (employers' association – trade unions) at different levels. The respondents considered that social dialogue conducted through the tripartite committees is more efficient at the sector level and territorial level. Around 40% consider that it is either little efficient or totally inefficient for all three levels. **CHART 12**



CHART 13: How often are you consulted (as an owner or enterprise director) by the authorities in the decision process?

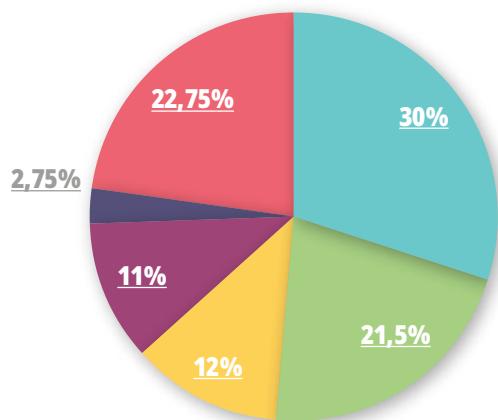
Never	Rarely	Sometimes
Very often	DK-DA-N/A	



Source: Moldova EESE Survey

CHART 14: In practice, to what extent do workers have the right to collective bargaining?

Generally easy	Without any problems	Difficult
Sometimes difficult	Impossible	DK-DA-N/A



Source: Moldova EESE Survey

When asked how often they were consulted by the authorities in the social dialogue decision process, representatives of enterprises said that 45.3% of the time this never happened, while a further 25.3% found this to be rare. 17.3% said this happened sometimes while 2.5% said it happened very often. **CHART 13**

The right to collective bargaining is protected by law, and on this front the respondents shared that they had mixed experiences with collective bargaining. Respondents representing enterprises were generally open towards the rights of workers to collective bargaining. 30% of respondents said that it was generally easy for workers to access the right to collective bargaining, 21.5% said this happened without any problems, 12% found it difficult, 11% found it sometimes difficult, and 2.8 found it impossible, while 22.8% either did not know or would not say. **CHART 14**

The biggest part of the enterprises representatives involved in the survey consider that the National Confederation of Employers tackles the needs and interests of the enterprises to a limited

extent (25%) and hardly at all (26%), while 25.8% do not know, or choose not to say. Only 1.8% strongly agreed that the needs and interests of enterprises were being sufficiently addressed, while 9.5% said this happened not at all, and 12% agreed that they were indeed being tackled. **CHART 15**

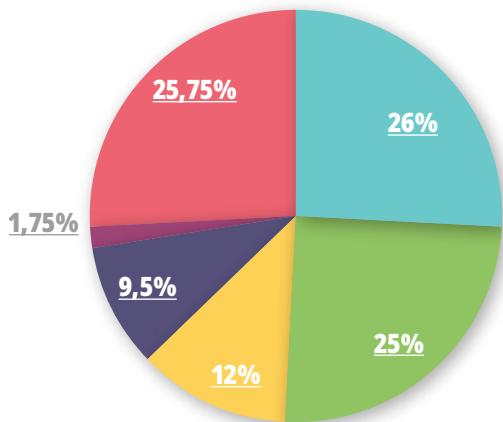
When asked whether the National Confederation of Trade Unions of Moldova represents workers concerns adequately the largest proportion, approximately two out of five enterprises interviewees responded that NCTUC represents workers concerns adequately or to some extent adequately at national debates (whereby 29.3% said this happened to a limited extent, 10.5% thought it happened and 0.8% strongly agreed that this was the case). 27.3% felt that this happened hardly at all, and 9.5% found it not to happen at all. Over one fifth, at 22.8% either did not know or chose not to answer. **CHART 16**

Employees surveyed as part of the Moldova EESE survey were asked if workers were consulted when management made important changes in company activities that might affect them. The



CHART 15: Does the National Confederation of Employers of Moldova sufficiently tackle the needs and interests of enterprises?

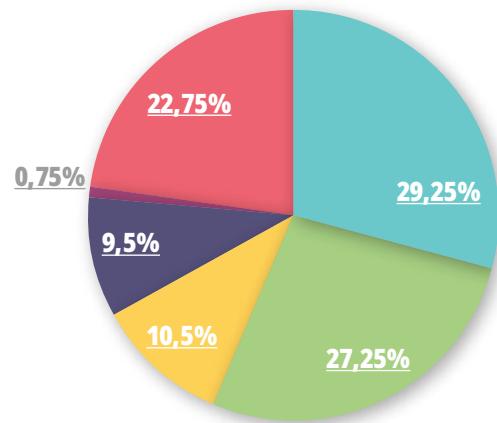
Hardly at all To a limited extent Agree
Not at all Strongly agree DK-DA-N/A



Source: Moldova EESE Survey

CHART 16: Does the National Confederation of Trade Unions of Moldova represent workers' concerns adequately at national debates on matters concerning business and the economy?

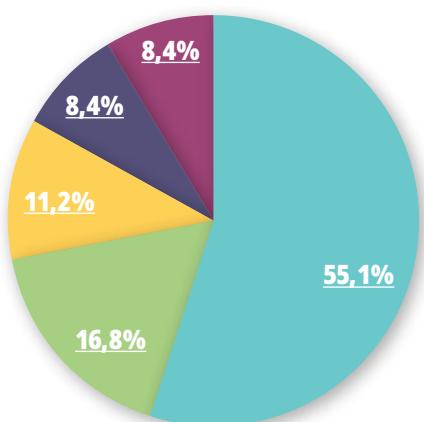
To a limited extent Hardly at all Agree
Not at all Strongly agree DK-DA-N/A



Source: Moldova EESE Survey

CHART 17: Are workers consulted when the management makes important changes in the company's activity that might affect them?

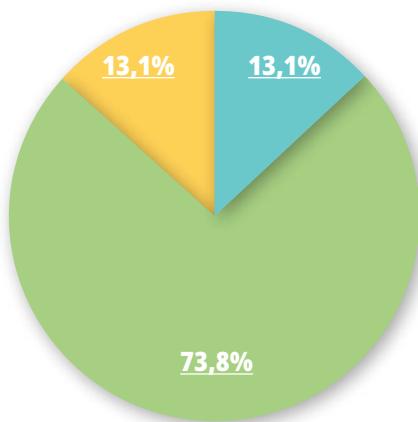
Do not know Never Rarely
Often Always



Source: Moldova EESE Survey

CHART 18: Are there unions or employee representatives in company you work in?

Yes No Do not know



Source: Moldova EESE Survey



survey showed that employees generally felt like they were consulted. 55.1% of employees surveyed said they were always consulted, with 16.8% saying this happened often, and 11.2% saying this happened rarely, and 8.4% saying this never happened. When asked about whether it was possible to exchange ideas and negotiate between workers and management the figures were similar, with 56.1% saying this was always the case, 21.5% saying it happened often, with only 15.9% of employees saying this happened rarely, and 4.6% saying it never happened. **CHART 17**

Only 13.1% of the employees surveyed mentioned that there were unions or employees' representatives in their company. 13.1% did not know, and 73.8% of those surveyed did not have unions or other employee representatives in their enterprises. Of the employees surveyed 8.4% were union or employee representatives themselves. Of those 8.4% of employees, when asked if they were happy with the results of their union's or representative's work, 83.2% said they did not know, or wouldn't say, with 7.5% saying always, 6.5% saying often, 1.9% saying rarely, and 0.9% saying they were never happy. **CHART 18**

The Moldova EESE Survey asked employees if wages were negotiated through unions or employee representatives. 28% of employees surveyed said that wages were negotiated through unions or an employee representative, while 30.8% did not answer, 21.5% said they did not know, and 19.6% said this was not the case. When asked about the type of contract they had at work, 72% of employees surveyed were on non-fixed term contracts, while 14% were on fixed term contracts, 8.4% did not know, and 5.6% were working with a verbal agreement, and no formal contract. 50.5% of employees surveyed did not know the advantage of fixed term contracts, while 40.2% mentioned security and benefits as the biggest advantage. 42% of employees surveyed offered an answer when asked about the advantages of a non-fixed term contract. They identified security, freedom of action, and paid leave and allowances, as the major benefits. 79.4% of those surveyed would have preferred to be in non-fixed term contracts, with only 13.1% option for fixed term contracts voluntarily.

CHART 19

Employees were also asked about industrial action, and strikes. When asked if there had been a strike at their place of work in the last 18 months 91.6% said there had not been, while 8.4% did not know or would not say.

When asked about what worried them the most in terms of job security, employees surveyed had a mix of opinions. 43% did not know or would not say, 18.7% were concerned about the company narrowing down its activity. 15.9% were worried about the non-renewal of fixed-term contract, 11.2% were worried about conflict between workers and management, while 3.7% were worried about the risk of work-related injury, and 7.5% mentioned other concerns. **CHART 20**

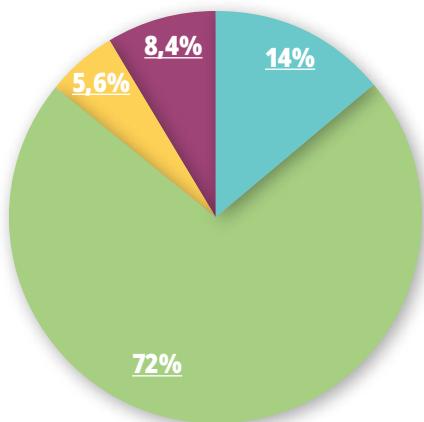
As part of the Moldova EESE Survey employees were asked about the extent to which they thought that the lack of communication between workers and management was a significant cause of workplace disturbances. 37.4% of employees strongly agreed that this was the case, while a further 39.3% agreed; in comparison 2.8% disagreed, and 4.7% strongly disagreed. **CHART 21**

One indicator relevant to social dialogue is "Co-operation in Labour-Employer Relations". This indicator determines whether labour-employer relations are confrontational or cooperative on a scale from 1 to 7 with higher values indicating more cooperation. Moldova performs better than Romania on this indicator, at 4.2 in 2017; in the same year Romania was lowest at 4 while Malta and Estonia perform best with value of 5.2. **FIGURE 5**



CHART 19: What is the type of your work contract?

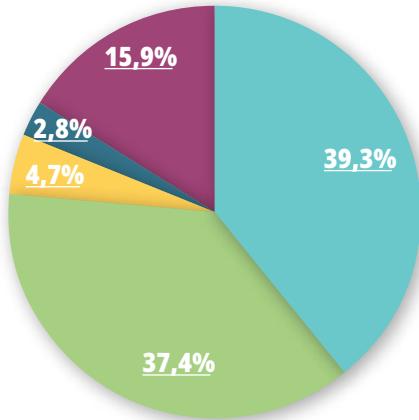
Fixed term Non fixed term
Verbal agreement/no contract Do not know



Source: Moldova EESE Survey

CHART 21: To what extent do you agree with the following statement: "Lack of communication between workers and management is a significant cause of workplace disturbances"?

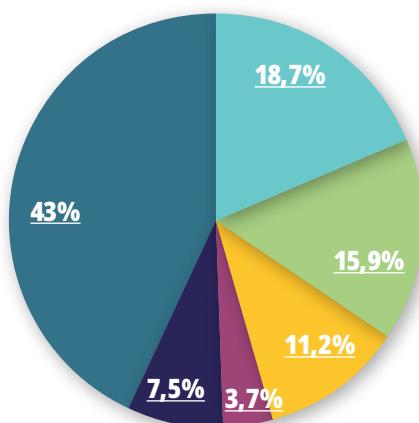
Agree Strongly Agree
Strongly Disagree Disagree
Do not know



Source: Moldova EESE Survey

CHART 20: In terms of job security, what worries you the most?

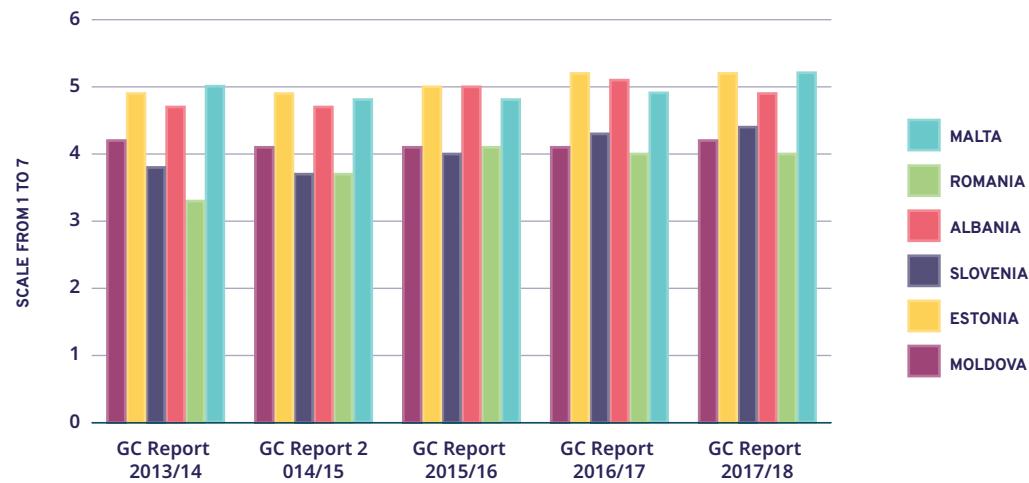
The company narrows down its activity Non-renewal of fixed-term contract
Conflict situation between workers and management Risk of work related injury
Other Do not know



Source: Moldova EESE Survey



FIGURE 5: Cooperation in Labour-Employer Relations



Source: World Economic Forum Executive Opinion Surveys in Global Competitiveness Reports

KEY INDICATORS

Cooperation in labour-employer relations

The World Economic Forum (WEF) Survey asked business leaders to provide their expert opinions on the following: "Labour-employer relations in your country are".

1 = generally confrontational, 7 = generally cooperative.

Source: World Economic Forum Global Competitiveness Reports.

	GC Report 2013/14	GC Report 2014/15	GC Report 2015/16	GC Report 2016/17	GC Report 2017/18
Moldova	4.2	4.1	4.1	4.1	4.2
Estonia	4.9	4.9	5	5.2	5.2
Slovenia	3.8	3.7	4	4.3	4.4
Albania	4.7	4.7	5	5.1	4.9
Romania	3.3	3.7	4.1	4.0	4.0
Malta	5.0	4.8	4.8	4.9	5.2



2.4 Respect for Universal Human Rights and International Labour Standards

Respect for human rights and international labour standards is a distinctive feature of societies that have successfully integrated sustainability and decent work into their economies. Moldova's legal framework provides for the protection of human rights but the implementation of existing laws is problematic, and de facto discrimination sometimes persists. Fundamental human rights and freedoms are defended by the Prosecutor General's Office, an autonomous institution within the branch of judicial power, which conducts and supervises criminal investigation and represents the prosecution in courts⁶².

According to Freedom House the human rights situation worsened in 2017⁶³. Areas of concern may include potential infringement of freedom of association, unfair trials in politically sensitive cases, allegations of torture and ill-treatment in detention, and protections for minorities⁶⁴. Moldova has a relatively open media climate but it is affected by poor protections for journalists, government interference, and media ownership being dominated by business and political figures⁶⁵. The media sector is politicized, and faces the challenges of an outdated legal framework, influence from politicians and oligarchs, and limited independence for the broadcasting regulatory authority⁶⁶. There have been several reported cases involving verbal attacks and harassment of journalists⁶⁷.

Measures are being taken towards the implementation of the European Convention on Human Rights in Moldova⁶⁸. A Universal Periodic Review

was conducted in 2016, and a new National Human Rights Action Plan for 2018-2022⁶⁹ has been adopted to address its recommendations⁷⁰.

Moldova has adopted seven of the nine main human rights conventions. The nine main human rights conventions are the International Convention on the Elimination of All Forms of Racial Discrimination, the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the Convention on the Elimination of All Forms of Discrimination against Women, the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, the Convention on the Rights of the Child, The Convention on the Protection and Rights of All Migrant Workers and Members of their Families, The International Convention for the Protection of All Persons from Enforced Disappearance, and the Convention on the Rights of Persons with Disabilities.

Moldova has yet to ratify the International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families, and is signatory to, but has not become state party to International Convention for the Protection of All Persons from Enforced Disappearance. Estonia has also not ratified these same two conventions, as well as Slovenia and Romania. Albania has ratified all, while Malta has not ratified the International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families.

Of the fundamental ILO Conventions on freedom of association and collective bargaining, and the abolition of child labour, forced labour and all forms of discrimination, Moldova, and all of the comparison countries have ratified all eight.

Respect for Freedom of Association (Conventions No. 87 and No. 98) should strengthen respect for human rights, thus contributing to the goals of the Commission on Human Rights and Good Governance. Freedom of association will contrib-

62 Globalex, April 2012.

63 Freedom House, 2018.

64 Amnesty International,

65 Carnegie Endowment for International Peace, 23 May 2017.

66 Freedom House, 2018.

67 Ibid.

68 Globalex, April 2012.

69 European Commission, 3 April 2018

70 The People's Advocate (Ombudsman), 23 November 2016.



ute to better labour relations, industrial and social peace, productivity growth and a more stable environment for domestic and foreign investment needed for accelerated economic growth and poverty reduction.

Abolition of the worst forms of child labour arising from the application of Conventions No. 138 and No. 182 will liberate children from the drudgery and damage of hazardous work, which deprive them of education, and adversely affect them mentally and physically. The benefits of a more educated work force for accelerated economic growth are incontestable.

The abolition of forced and compulsory labour required by Conventions No. 29 and No. 105 similarly should contribute to good governance and respect for human rights. If workers are free to choose where they work rather than be forced into some occupations, they are more likely to be more productive and earn higher wages which will contribute more effectively to the growth of sustainable enterprises.

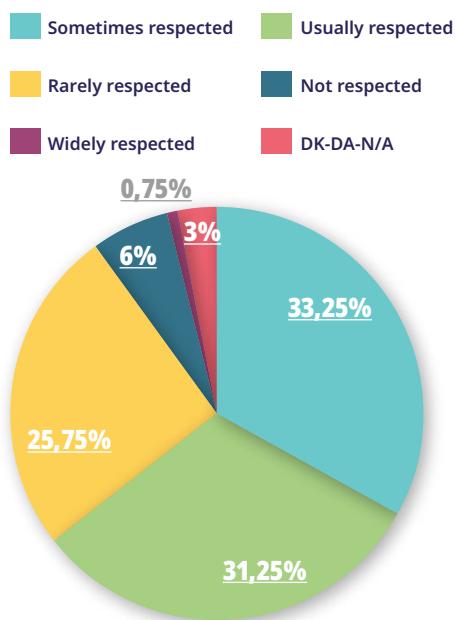
Enterprise respondents were asked about the extent to which they thought that human rights were respected in Moldova. The results here are encouraging. 31.3% of respondents felt that human rights were usually respected in Moldova, while a further 33.3% thought they were sometimes respected. Unfortunately, over a fourth of respondents, at 25.8% thought they were rarely respected, with a further 6% saying they were not respected at all. **CHART 22**

When asked about how widely international labour standards were understood in Moldova the largest proportion, 41.5% of Moldova EESE Survey respondents from enterprises, said they were only partially understood. 23.3% thought they were generally understood, while nearly one fifth, at 19.5% thought they were well understood.

CHART 23

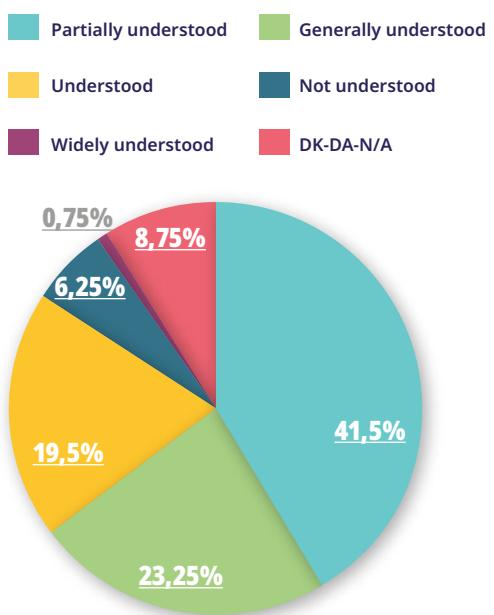
Responses were similar when the Moldova enterprise respondents were asked about whether international labour standards were respected in Moldova. While one fourth, 25% did say they were usually respected, the largest proportion ex-

CHART 22: To what extent do you think that human rights are respected in Moldova?



Source: Moldova EESE Survey

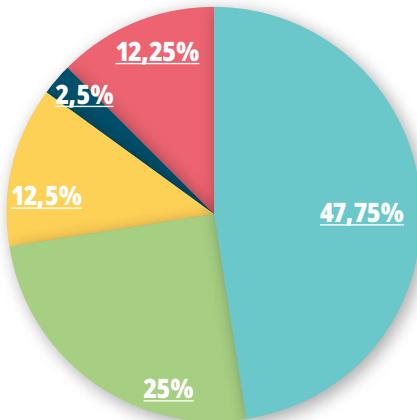
CHART 23: Are international labour standards understood in Moldova?



Source: Moldova EESE Survey

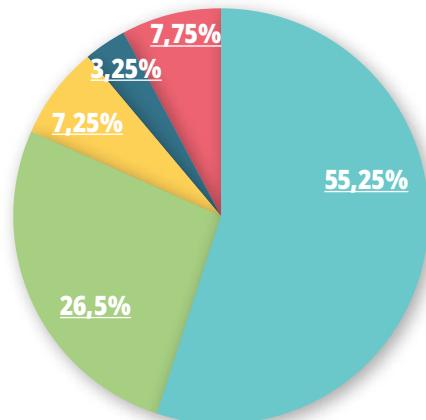
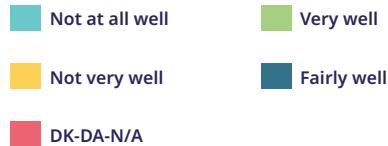


CHART 24: How well are labour standards promoted by the government?



Source: Moldova ESEE Survey

CHART 25: How well would you say that your management understands about fundamental principles and rights at work?



Source: Moldova ESEE Survey

pressed ambivalence, with 34% saying they were only sometimes respected and a further 28.5% of respondents saying they were rarely respected.

Responses were stark when asked about how well labour standards were promoted by the government. An overwhelming 47.8% of enterprises respondents thought that labour standards were not very well promoted by the government with a further 12.5% saying that they were not well promoted at all. In comparison 25% thought that they were fairly well promoted, while 2.5% thought they were very well promoted. **CHART 24**

The perceptions about fundamental principles and rights at work were slightly more positive. 55.3% of Moldova ESEE Survey respondents from enterprises thought that management understood these fairly well, while a further 7.3% thought they understood them very well. In comparison over a quarter, at 26.5% thought management did not understand them very well, and 3.3% thought they were not understood well at all. **CHART 25**

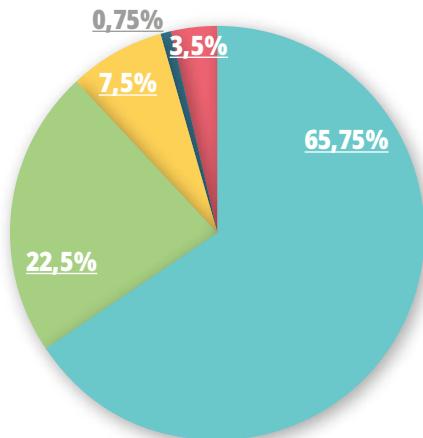
The perception among enterprise survey respondents was that a large proportion of the citizens of Moldova did not understand fundamental principles and rights at work. When asked 65.8% of respondents said they thought fundamental principles and rights at work were not very well understood, with a further 7.5% saying they were not well understood at all. On the other hand, 22.5% thought they were fairly well understood, and 0.8% thought they were very well understood.

CHART 26

When asked about to what extent they agreed with the statement that most firms in Moldova generally ensure that fundamental principles and rights at work are respected in their operations, 54.5% of enterprise respondents said that they somewhat agreed. A further 23.3% said they agreed that firms did generally ensure that fundamental rights and principles were respected, while 13% disagreed. **CHART 27**

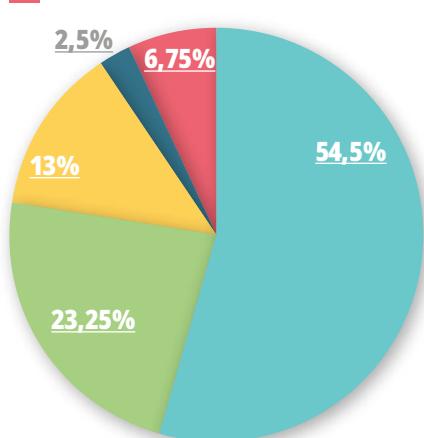


CHART 26: How well would you say that citizens of Moldova understand about fundamental principles and rights at work?



Source: Moldova EESE Survey

CHART 27: To what extents do you agree with the statement “most firms in Moldova generally ensure that fundamental principles and rights at work are respected in their operations”?



Source: Moldova EESE Survey

Additional indicators can help better assess the human rights situation in Moldova. The “Political Rights Index” measures the level of freedom in the electoral process, political pluralism and participation, and functioning of government. The index ranges from 1 to 7 with higher values indicating a lower degree of freedom; ‘1’ is ideal, while ‘7’ indicates extremely low freedom. In 2018, Moldova scored an index of 3, as did Albania. In the same year Romania performed better than Moldova, scoring a 2, while Estonia, Slovenia and Malta even outperformed Romania, with a score at 1.

The “Civil Liberties Index” measures freedom of expression, assembly, association, and religion on a scale from 1 to 7 with lower values corresponding to better performance. Here Moldova scores 3 from 2013- 2018. In 2018 Albania was also at 3, while Estonia, Slovenia and Malta did best at 1.



KEY INDICATORS

Ratification of Human Rights Conventions

It shows the status of human rights referring to ratification of following 10 conventions:

- Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment;
- Convention on the Rights of the Child;
- Convention on the Elimination of All Forms of Discrimination against Women;
- International Convention on the Elimination of All Forms of Racial Discrimination;
- Convention on the Prevention and Punishment of the Crime of Genocide;
- International Covenant on Civil and Political Rights;
- International Covenant on Economic, Social and Cultural Rights;
- International Convention for the Protection of All Persons from Enforced Disappearance;
- Convention on the Rights of Persons with Disabilities; and
- International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families.

Number of Conventions ratified out of 10.

Source: United Nations Treaty Collection
Multilateral Treaties Deposited with the Secretary General (UNTC).

	As of May 2019
Moldova	7
Estonia	7
Slovenia	7
Albania	9
Romania	7
Malta	8

Ratification of fundamental ILO Conventions

It shows the status of labour rights conventions. It refers to ratification of following 8 conventions: Freedom of association and collective bargaining (C.87, C.98), Elimination of forced and compulsory labour (C.29, C.105), Elimination of discrimination in respect of employment and occupation (C.100, C.111), Abolition of child labour (C.138, C.182).

Number of Conventions ratified out of 8.

Source: ILO

	As of May 2019
Moldova	8
Estonia	8
Slovenia	8
Albania	8
Romania	8
Malta	8



Political Rights Index

The Political Rights index measures the degree of freedom in the electoral process, political pluralism and participation, and functioning of government⁷¹.

Freedom House rates political rights on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.

Freedom House rates political rights on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.

Source: Freedom House, The Freedom in the World Survey

	2013	2014	2015	2016	2017	2018
Moldova	3	3	3	3	3	3
Estonia	1	1	1	1	1	1
Slovenia	1	1	1	1	1	1
Albania	3	3	3	3	3	3
Romania	2	2	2	2	2	2
Malta	1	1	1	1	1	1
Malta	1	1	1	1	1	1

Civil Liberties Index

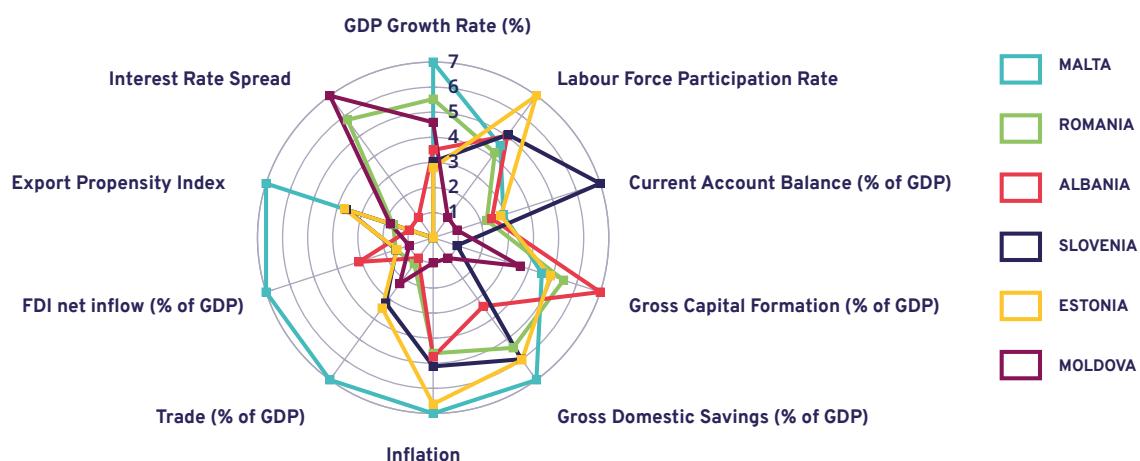
The Civil Liberties index measures freedom of expression, assembly, association, and religion.

Freedom House rates civil liberties on a scale of 1 to 7, with 1 representing the most free and 7 representing the least free.

	2013	2014	2015	2016	2017	2018
Moldova	3	3	3	3	3	3
Estonia	1	1	1	1	1	1
Slovenia	1	1	1	1	1	1
Albania	3	3	3	3	3	3
Romania	2	2	2	2	2	2
Malta	1	1	1	1	1	1

3. Economic Elements

Indicators Assessing Macroeconomic Indicators of an Enabling Environment for Sustainable Enterprises *



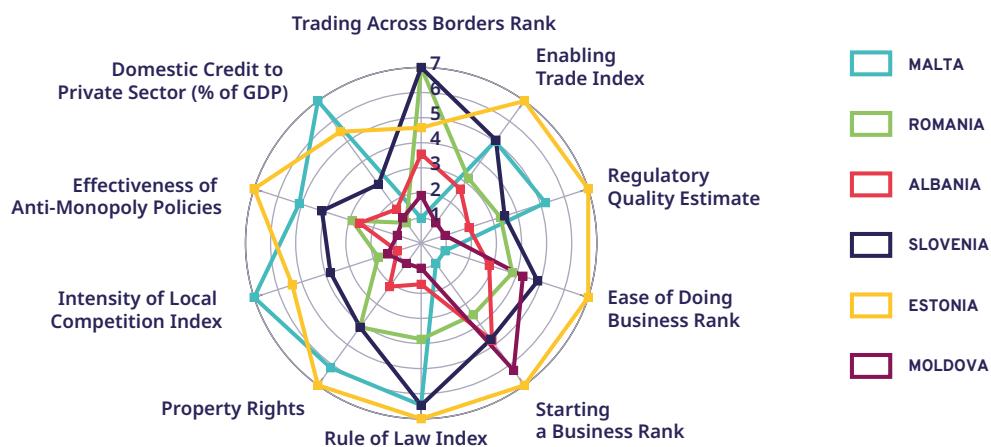
* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- Since becoming an independent county in 1991 Moldova has undergone a political and socio-economic transition from a communist political system and centrally-planned economy towards democracy and a market economy.
- In 2017 GDP growth rate was an estimated 4.5%, having recovered from the 2015 decline in public investments due to the banking scandal.
- In 2016 the National Regional Development Strategy (NDS) for 2016-2020 was approved, which aims to ensure sustainable development of Moldova's regions.
- Though the proportion of the population living under the poverty line had reduced from 21.9% to 9.6% between 2010 and 2015, absolute poverty in rural areas was almost five times higher than in urban areas in 2017.



- When asked about whether they thought Moldova had a sound and stable macroeconomic environment, and that the economy was well managed 54.3% of enterprises respondents surveyed said they did not agree.
- A majority of enterprises survey respondents thought that existing company tax, VAT, and social and medical contributions discouraged the growth of enterprises
- Moldova signed the Association Agreement with the EU in June 2014, which included a Deep and Comprehensive Free Trade Agreement.
- Seven free economic zones (FEZs), which incentivise local and foreign investment have been established by the government to improve the pace of FDI, and it has improved somewhat mainly in the automotive sector.

Indicators Assessing Access to Credit, Property and Competition *



* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- Bureaucratic procedures are not always transparent, and processing registrations can become long and expensive procedures.
- When asked about how encouraging they thought the Moldovan legal and regulatory framework was for the functioning and the development of enterprises 52.8% of enterprises respondents said they did not really find it encouraging.
- There was positive feedback from enterprises respondents about improvements made to increase transparency and clarity of procedures by the authorities, as well as the introduction of online platforms.
- The majority of enterprises survey respondents suggested that the law was open to the political interference and also that the protection of physical and intellectual property rights was weak.
- Towards creating a comprehensive legislative base for transitioning to a market economy Moldova has adopted several new laws and regulations, including a new bankruptcy law, a competition law, and legislation on payment services and electronic money.
- In 2017 a total of 6,406 new enterprises were registered in Moldova which was 13% more than in the previous year; according to the

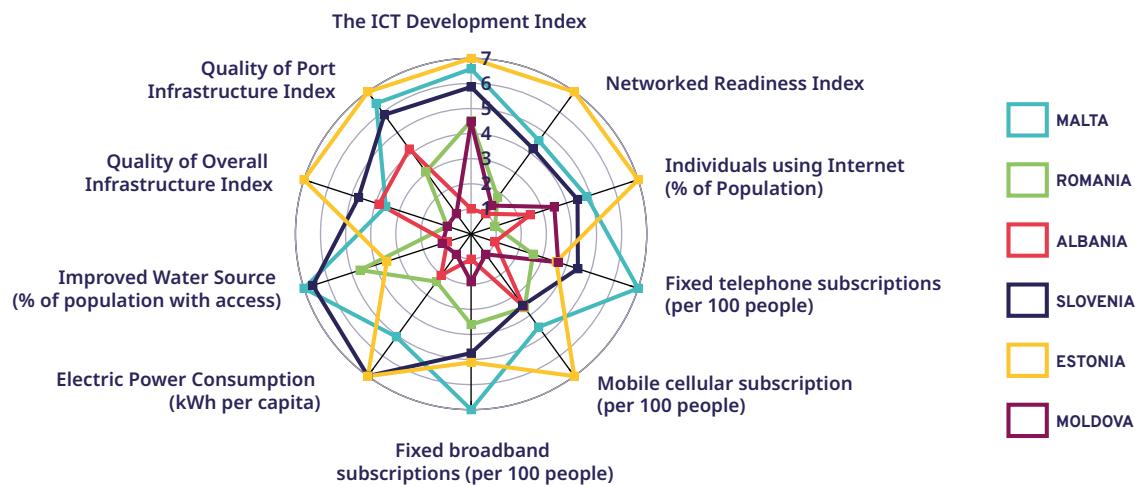


State Registration Chamber about 64% were registered in Chisinau.

- More than half of the surveyed enterprise representatives thought that the existing legal framework disadvantages the SMEs compared to large enterprises.

- Since independence in 1992 most state-owned enterprises (SOEs) in most sectors of the economy have been privatized.

Indicators Assessing ICT and Infrastructure *



* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- Moldova has a number of key advantages in developing its ICT sector: labour costs are relatively low, and the existing infrastructure is of a generally high standard.
- The spread of technology offers opportunities for empowering citizens for economic and social growth.
- A Digital Moldova 2020 Strategy was developed to guide the development of ICTs and ensure that their benefits accrued to the citizens of the country.
- The Government of Moldova has also been proactive about harnessing ICT-centric innovation as a support for the economy.
- The fixed broadband market and mobile broadband are among the fastest developing sectors in ICT in Moldova.
- Financial instruments of different types are still evolving, and the securities market in Moldova is underdeveloped.
- When asked about how easy it was for a formal small business to obtain the various sources of finance, the enterprises respondents mentioned that business loans were the most difficult to obtain, and that they would most likely use their own savings to fund business ideas.
- When asked to rank problems faced by entrepreneurs enterprises respondents mentioned insufficient collateral, high loan costs and the



lack of guarantors as the three most significant ones.

- Lending activity was affected by the banking crisis of late-2014.
- Generally credit activity is mostly focused on large corporations; banks have few clients from small and medium-sized enterprises.
- Infrastructure and services are less well developed in rural areas.
- Moldova's population is heavily dependent on agriculture, and this requires good land transport infrastructure.
- A majority of enterprises respondents surveyed thought that the costs incurred by inadequate physical infrastructure were high or very high.

3.1 Sound and Stable Macroeconomic Policy and Good Management of the Economy

Macroeconomic policies should guarantee stable and predictable economic conditions. Sound economic management should combine the objectives of creating more and better jobs, combating inflation, and implementing policies and regulations that stimulate long-term productive investment. Despite recent progress Moldova remains among the poorest countries in Europe⁷¹. Since becoming an independent country in 1991 Moldova has undergone a political and socio-economic transition from a communist political system and centrally-planned economy towards democracy and a market economy⁷². While advances in democratic systems have been made, and there has been progress in engagement with the EU, the pace and direction of reforms have been stalled

by corruption and political volatility⁷³. Moldova has a small and relatively open economy which is exposed to regional and global economic trends, and agriculture, which is an important sector is affected by extreme weather events⁷⁴.

In 2017 GDP growth rate was an estimated 4.5%, having recovered from the 2015 decline in public investments due to the banking scandal⁷⁵. The last few years have seen export growth, and good harvests⁷⁶. There are significant disparities in economic activity; 57% of all industrial enterprises are located in the municipality of Chisinau⁷⁷. In 2017 the GDP per capita at purchasing power parity was USD 5,660, while in Ukraine it was USD 8,660 and in Kosovo it was USD 10,380⁷⁸. Poverty rates are much higher in rural areas, and the rural-urban gap is also reflected in terms of access to public services and health insurance coverage⁷⁹.

Estimates for 2017 indicate that around 73.2% of the GDP came from services, 14.6% from industry and 12.2% from agriculture; but of the labour force of 1.295 million 55.7% were employed in services, 12% in industry and 32.3% in agriculture⁸⁰. The unemployment rate in 2014 was 5% according to the ILO⁸¹. Main exports are foodstuffs, textiles and machinery, while main imports are mineral products and fuel, capital goods, chemicals and textiles. Primary trading partners are Russian, Romania, Ukraine, China, the EU and Turkey⁸². Russia supplies most of Moldova's energy, and holds a significant portion of Government of Moldova debt⁸³.

⁷¹ SDC, December 2017.

⁷² SDC, December 2017.

⁷³ World Bank, 17 May 2018.

⁷⁴ World Bank, 17 May 2018.

⁷⁵ SDC, December 2017.

⁷⁶ SDC, December 2017.

⁷⁷ SDC, December 2017.

⁷⁸ SDC, December 2017.

⁷⁹ SDC, December 2017.

⁸⁰ CIA World Factbook, 2018.

⁸¹ ILO, 2016.

⁸² CIA World Factbook, 2018.

⁸³ Carnegie Endowment for International Peace, 23 May 2017.



Consumer inflation has decreased due to lower importation inflation, higher prices of selected agricultural products and regulated prices⁸⁴. Imports have grown, resulting in a widening current account deficit which is mainly financed by external debt⁸⁵. While growth is expected to continue the economy is still vulnerable to internal and external shocks, and structural reforms will be required for private sector growth and job creation⁸⁶. The high migration levels highlight the lack of economic opportunities in Moldova.

In 2016 the National Regional Development Strategy (NDS) for 2016-2020 was approved, which aims to ensure sustainable development of Moldova's regions⁸⁷. The main policy goals include ensuring access to professional public services, sustainable economic growth, and improving the normative and legislative framework for sustainable development⁸⁸. There is an emphasis on entrepreneurship, and improving living standards. The NDS is in compliance with commitments in the Moldova-EU agreement, and a longer term vision, integrating the Sustainable Development Agenda and the Association Agreement is being formulated under the name of the Moldova 2030 Strategy⁸⁹.

A Moldova 2020 NDS Review Report, covering the period 2012-2015, carried out with the support of the UN Country Team including ILO, UNDP, UNICEF, UN Women, UNFPA and donor agencies found that the justice sector needed considerable attention, and that progress assessed on the basis of the GDP was modest⁹⁰. Though the proportion of the population living under the poverty line had reduced from 21.9% to 9.6% between 2010 and 2015, absolute poverty in rural areas was almost five times higher than in urban areas in 2017, while in 2012 absolute poverty in rural areas

was only three times higher than in urban areas⁹¹. Approximately 60% of the population live in rural areas⁹².

Demographics are important: migration is currently a significant factor in Moldova's development; being both a source of income and an obstacle to growth⁹³. The NDS recognizes that Moldova's high migration rates represent a major strategic factor as well as a potential risk for the country; as economic growth and poverty reduction are closely correlated with remittance flows, despite the adverse effect on the social-demographic profile⁹⁴. The poverty rate, calculated against the national poverty line with World Bank data, declined from 68% in 2000 to 11.4% in 2014; this reduction was mainly driven by remittances⁹⁵. Remittances as a share of GDP peaked at 31% in 2008; in 2016 they made up 22% of the GDP⁹⁶. A large proportion of migration out of Moldova has been from rural areas, and so while there has been poverty alleviation due to remittances they have not particularly stimulated the growth of jobs in the local economy⁹⁷.

When asked about whether they agreed with the statement that Moldova had a sound and stable macroeconomic environment and that the economy was well managed, 54.3% of enterprises respondents said they did not agree. 32.3% said they agreed with the statement to a limited extent, with only 0.3% in total agreement that the economy was well managed. **CHART 28**

The Moldova EESE Survey asked for the enterprises respondents' opinions on whether tax administration (calculation and accounting methods, tax payment, reporting, etc.) was a constraint for the development of enterprises. A large part of respondents, at 31.5% found it to be a strong con-

⁸⁴ CIA World Factbook, 2018.

⁸⁵ World Bank, 17 May 2018.

⁸⁶ World Bank, 17 May 2018.

⁸⁷ Government of Moldova, 6 April 2016.

⁸⁸ Ibid.

⁸⁹ UNDP, 6 November 2017

⁹⁰ Ibid.

⁹¹ Ibid.

⁹² CIA World Factbook, 2018.

⁹³ Carnegie Endowment Fund for International Peace, 23 May 2017.

⁹⁴ IOM-UNDP, 2017.

⁹⁵ SDC, December 2017.

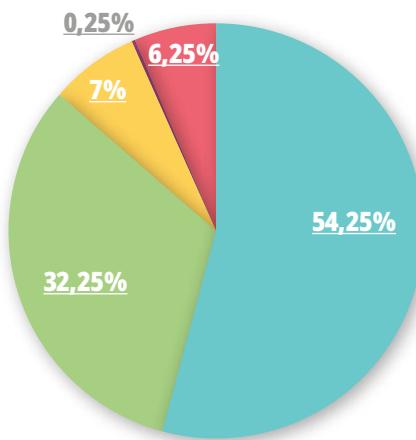
⁹⁶ Ibid.

⁹⁷ Ibid.



CHART 28: Do you agree that Moldova has a stable macroeconomic environment and well managed economy?

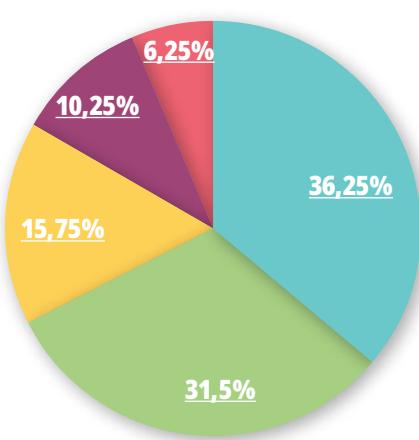
Do not agree To a limited extent Agree
Strongly agree DK-DA-N/A



Source: Moldova EESE Survey

CHART 29: Is tax administration a constraint in the development of enterprises?

Slight constraint Strong constraint No, it is not a constraint
Very strong constraint DK-DA-N/A



Source: Moldova EESE Survey

straint, while 10.3% found it to be a very serious constraint; on the other hand 36.3% found it to be a slight constraint, and 15.8% found it not to be a constraint at all. **CHART 29**

The Moldova EESE Survey also asked enterprises respondents if in their opinion the fiscal burden (the size of paid direct and indirect tax) was a constraint for the development of the enterprises. Very similar to the situation with fiscal burden, 10% of respondents found it to be a very strong constraint, 35.8% found it to be a strong constraint, 33.8% found it was a constraint to a slight extent, and 13% found it not to be a constraint at all. When asked about the impact they thought company tax rates has on business growth in Moldova an overwhelming 31% thought that they did not encourage growth, with another 30.8% thinking they had little impact, and 2.3% saying they did in fact encourage growth. **CHART 30**

When asked about how they perceived the recent initiative to reduce tax burdens on businesses and their impact, the representatives of the enterprises were generally positive. 41.5% of respondents

thought the initiative had a relatively positive impact while 27.5% viewed them very positively; and 41.5% viewed them relatively positive. On the other hand, only 3% viewed them negatively while 18.5% found them to make no difference. **CHART 31**

Enterprise representatives were asked about that impact they thought VAT rates would have on business growth in Moldova. The majority of the Moldova EESE Survey representatives from enterprises (54.3%) consider that the existing VAT rates do not encourage business growth in Moldova. Only 4% consider that they do and another 25.8% that they have little impact.

The survey also asked what could be done to reduce the tax burden and simplify tax administration for businesses in Moldova. Only 18% of representatives of the enterprises interviewed expressed their opinion regarding this question (out of 400), but the following themes can be identified from the answers offered; reducing the fiscal burden, particularly for the small enterprises: lower taxes, including lower rates for VAT, introduction



of a single tax rate, etc would be helpful. Warning before the application of fines were also mentioned as a positive change that could be made to fiscal administration procedures. Mention was also made of introducing facilities for newly created enterprises in order to encourage entrepreneurship, and incentives such as waiving taxes for the first year of activities, access to subsidies and other financial stimuli. **CHART 32**

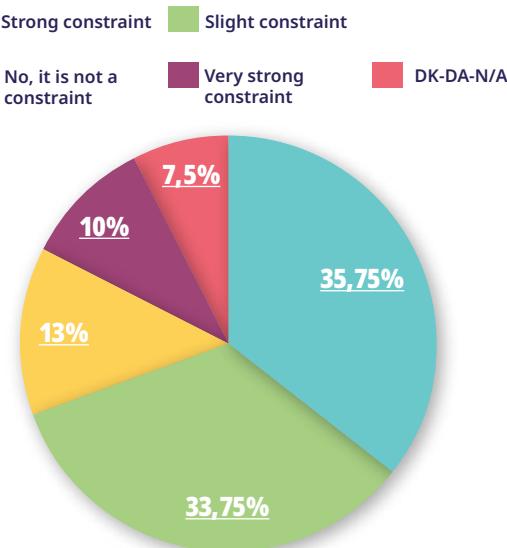
When asked about the impact that social and medical contributions had on business growth, 57.5% of EESE Survey respondents from enterprises thought that they did not encourage it, while 27.3% thought they had little impact. Only 4.5% thought that social and medical contributions encouraged growth. **CHART 33**

Moldova EESE Survey respondents from enterprises were also asked about whether they thought inflation rates had a significant impact on the competitiveness of firms. 45.5% of respondents thought there was a significant impact, while a further 29.5% thought they had a very significant impact. Of those surveyed only 2.8% thought there was no significant impact, while 16.5% thought there was a somewhat significant impact. **CHART 34**

Representatives of enterprises surveyed were also asked how they thought their enterprise would perform during 2018-2019 compared to 2017. Only 9% of respondents from the Moldova EESE Survey thought that their enterprises would perform much better in the coming year. The largest proportion, 36.3% thought that they would do somewhat better, 33% thought they would do the same, and 13% thought that they would do worse than the previous year.

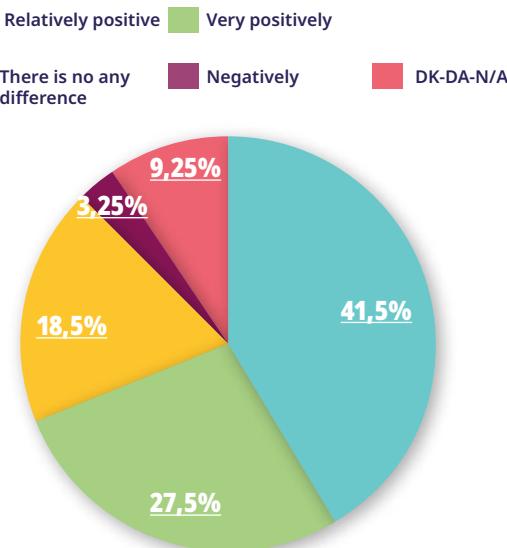
Key informant interviews, conducted with representatives of employers' associations, trade unions, governmental bodies, and other experts also reveal a low level of trust among business community representatives, that government policies will promote the development of enterprises. The detailed interviews revealed that unpredictability of the regulatory framework generated suspicion and a lack of trust. Moreover, business representatives are sceptical regarding the genuine

CHART 30: Is the fiscal burden a constraint for the development of enterprises?



Source: Moldova EESE Survey

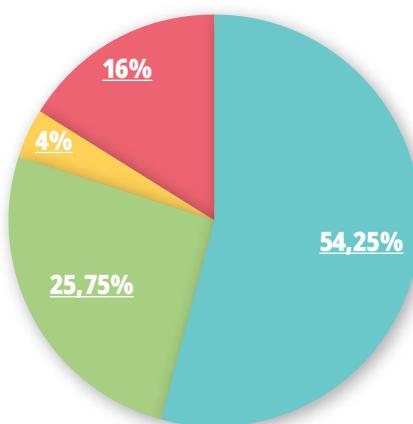
CHART 31: What is the impact of recent initiatives to reduce the tax burden on businesses?



Source: Moldova EESE Survey

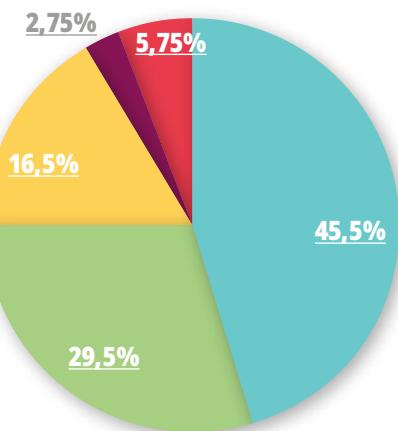
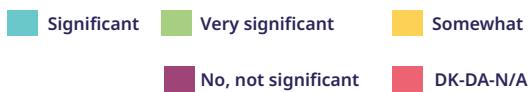


CHART 32: What impact will VAT rates have on business growth in Moldova?



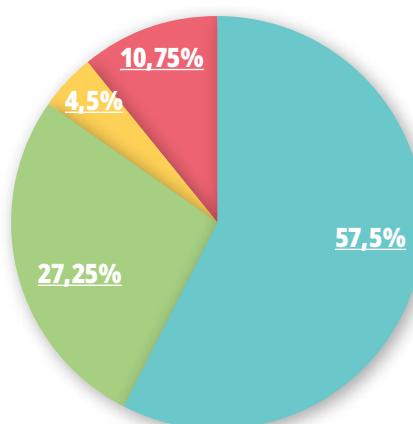
Source: Moldova EESE Survey

CHART 34: Does inflation have a significant impact on the competitiveness of firms?



Source: Moldova EESE Survey

CHART 33: What impact do social and medical contributions have on business growth in Moldova?



Source: Moldova EESE Survey

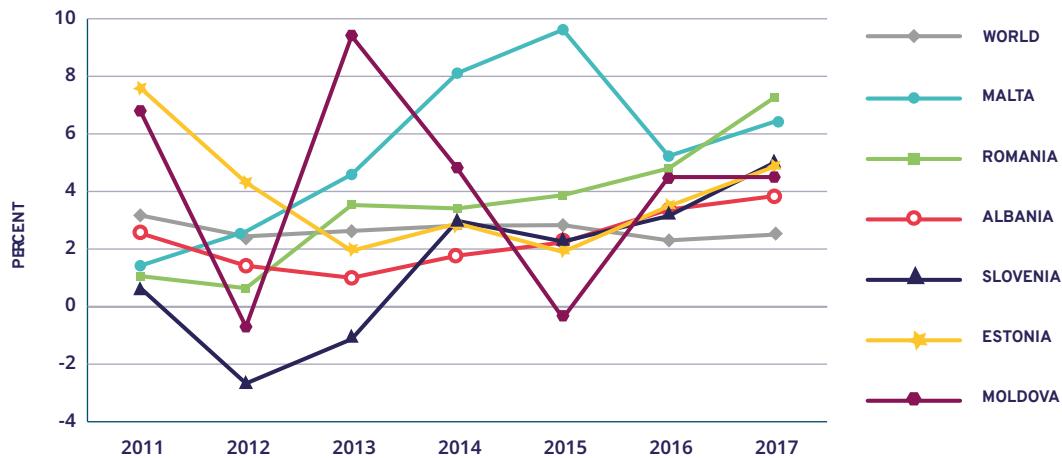
willingness and interest of the state institutions representatives in solving the challenges faced by the business community. Those surveyed also expressed that they thought enterprises in general were not doing as well as government institutions liked to claim, and though the national economy was said to be developing, they did not necessarily see the effects, or feel like they were part of the positive trend. **FIGURE 6**

Moldova's economy went from a GDP growth rate of -0.70 in 2012, rebounding to 9.4% in 2013 but dropping again to -0.40 in 2015. In 2017 it was at 4.50%. In the same year Romania and Malta were higher at 7.26% and 6.54% respectively, as were Estonia at 4.86% and Slovenia at 5%. Of the countries used for comparison Albania was lowest at 3.84%. All the countries, except Malta saw a drop in growth rates in 2012, but revived steadily after that. **FIGURE 7**

The current account balance as a percentage of GDP went from -9.40% in 2010 to -7.49% in 2015, a figure which reflects, to some degree, the size of the domestic economy and the demand for im-

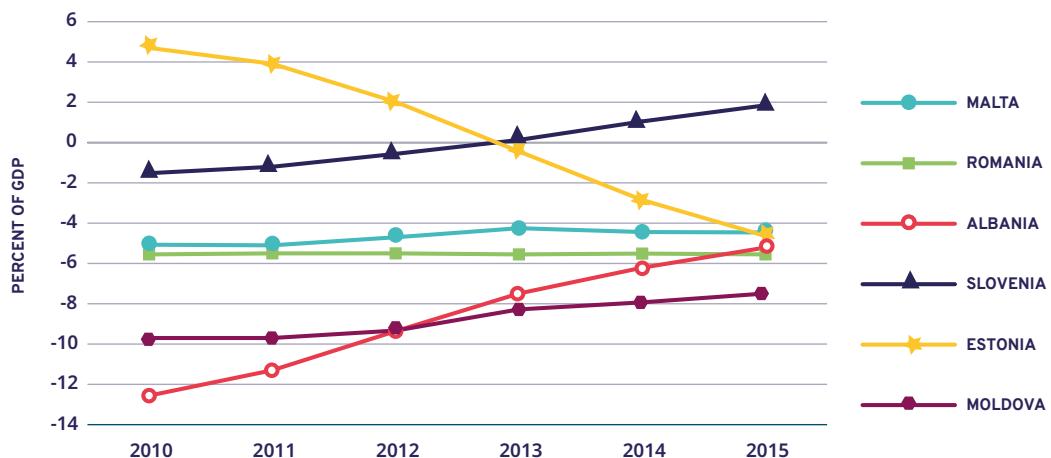


FIGURE 6: GDP Growth Rate



Source: World Bank, *World Development Indicators*

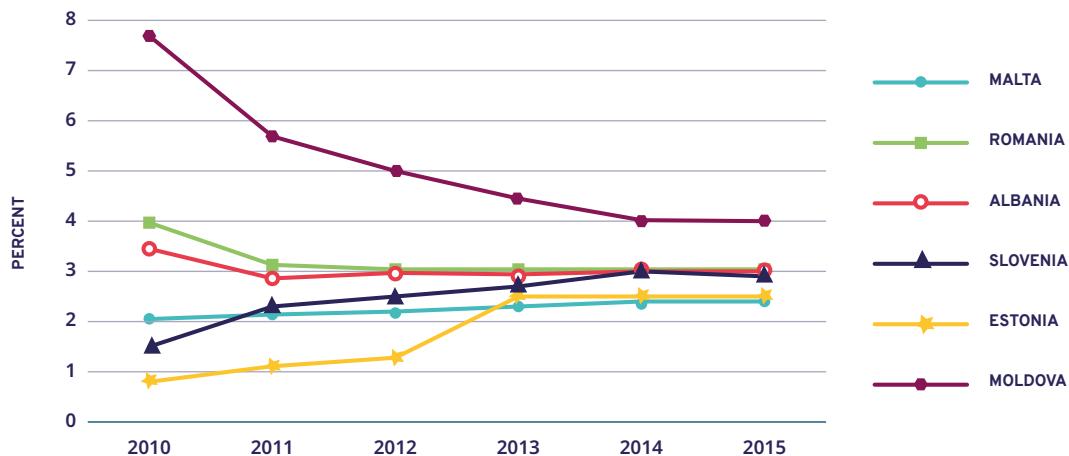
FIGURE 7: Current Account Balance



Source: International Monetary Fund, *World Economic Outlook*



FIGURE 8: Inflation Rate



Source: World Bank: World Development Indicators

ports. Among the comparison countries Slovenia has the highest figure at 1.85% for 2015. In the same year Romania ranked lowest with a current account balance as a percentage of GDP at -5.55%, followed by Albania (-5.21%), Estonia (-4.63%) and Malta (-4.46%). **FIGURE 8**

The inflation rate in Moldova dropped steadily from 2010 to 2015 going from 7.69% to 4.00%.

This is the highest for all the countries surveyed in this study. In 2015 Malta had the lowest inflation at 2.40%, followed by Estonia at 2.50%, Slovenia at 2.90%, Albania at 3.00% and Romania with 3.04%. Estonia, Slovenia and Malta saw upward trends in inflation rates, while Albania and Romania have seen downward trends.



KEY INDICATORS

GDP growth rate (%)

Measures the annual percentage growth rates of all value-added goods and services produced in the country. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

Annual percentage growth rate of GDP.

Source: World Bank, World Development Indicators.

	2012	2013	2014	2015	2016	2017
Moldova	-0.70	9.40	4.80	-0.40	4.50	4.50
Estonia	4.31	1.94	2.89	1.90	3.49	4.86
Slovenia	-2.67	-1.13	2.98	2.26	3.15	5.00
Albania	1.42	1.00	1.77	2.22	3.35	3.84
Romania	0.64	3.53	3.41	3.87	4.80	7.26
Malta	2.61	4.59	8.11	9.62	5.23	6.42
Malta	1	1	1	1	1	1

Inflation, consumer prices (annual %)

Measures the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specific intervals, such as yearly.

Source: World Bank, World Development Indicators

	2010	2011	2012	2013	2014	2015
Moldova	7.69	5.69	5.00	4.45	4.02	4.00
Estonia	0.80	1.11	1.28	2.50	2.50	2.50
Slovenia	1.50	2.30	2.50	2.70	3.00	2.90
Albania	3.45	2.86	2.97	2.94	3.00	3.00
Romania	3.97	3.13	3.04	3.04	3.04	3.04
Malta	2.05	2.14	2.20	2.30	2.40	2.40
Malta	1	1	1	1	1	1



Current account balance (% of GDP)

Current account balance (also called 'current account surplus/deficit') is the sum of net exports of goods and services, net income, and net current transfers. It is a record of a country's transactions with the rest of the world. It shows whether a country is 'living within its means'. If a country is spending more abroad than it earns from the rest of the world then corrective action will be necessary, e.g. to maintain the value of the country's currency in relation to other countries' currency. The balance of payments is a double-entry accounting system that shows all flows of goods and services into and out of an economy.

All transactions are recorded twice - once as a credit and once as a debit. In principle the net balance should be zero, but in practice the accounts often do not balance, requiring inclusion of a balancing item, net errors and omissions. Positive current account (surplus) balance is associated with positive net exports. If the current account balance is negative, it measures the portion of domestic investment financed by foreigners' savings.

Source: World Bank, World Development Indicators

	2010	2011	2012	2013	2014	2015
Moldova	-9.70	-9.70	-9.33	-8.28	-7.93	-7.49
Estonia	4.70	3.91	2.02	-0.44	-2.85	-4.63
Slovenia	-1.52	-1.20	-0.56	0.13	1.05	1.85
Albania	-12.56	-11.30	-9.36	-7.49	-6.21	-5.21
Romania	-5.55	-5.50	-5.50	-5.55	-5.51	-5.55
Malta	-5.07	-5.10	-4.70	-4.25	-4.44	-4.46
Malta	1	1	1	1	1	1

Gross Capital Formation (% of GDP)

Gross capital formation consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories. Fixed assets include land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Inventories are stocks of goods held by firms to meet temporary or unexpected fluctuations in production or sales, and "work in progress." Gross capital formation (also called investment rate or gross domestic investment), along with foreign direct investment, is critical to economic growth and economic development. High level of gross capital formation in a period of time refers to increase in the value of inventories. High level of gross capital formation or investment is conducive to economic growth.

Source: World Bank, World Development Indicators

	2011	2012	2013	2014	2015	2016
Moldova	24.17	23.64	24.66	26.06	22.68	22.45
Estonia	25.11	29.09	26.91	27.10	24.94	24.24
Slovenia	21.72	18.71	19.48	19.58	19.37	18.70
Albania	31.41	28.33	28.37	24.58	26.44	27.20
Romania	27.86	26.84	25.56	24.69	25.17	25.02
Malta	19.43	17.99	19.02	17.70	24.58	23.73
Malta	1	1	1	1	1	1



3.2 Trade and sustainable economic integration

Trade integration can lead to positive economic outcomes which can have positive employment effects through efficiency gains. However, as trade integration can also lead to job dislocation, increased informality and growing income inequality, the employment and decent work impact of trade policies must be carefully considered. Despite having made progress towards adopting the principles of a free-market democracy there are still shortcomings in the investment climate, some of which have become more evident after the bank fraud of 2014⁹⁸. At the moment weakly protected property rights, deficient law enforcement and corruption are serious concerns⁹⁹.

The highest volume of imports comes from Romania, at 15.5%, then Ukraine (11.4%), followed by Russia and China at around 10% each, then Germany, Italy and Turkey¹⁰⁰. Fuel, machinery and equipment, chemicals and textiles make up the bulk of imports¹⁰¹. Primary export destinations are Romania, Russia, Italy, Germany, Ukraine, UK and Poland with the primary export commodities being food items, textiles and machinery¹⁰².

As mentioned before, Moldova signed the Association Agreement with the EU in June 2014, which included a Deep and Comprehensive Free Trade Agreement (DCFTA). The implementation of the DCFTA should integrate Moldova better into the European common market creating more opportunities for investment; the Government of Moldova approved an action plan for the implementation of AA/DCFTA in 2017-2019¹⁰³. The DCFTA provides for the mutual elimination of customs duties on industrial and most agricultural prod-

ucts, as well as liberalization of the services market¹⁰⁴.

Moldova has been a member of the Word Trade Organization (WTO) since 2001¹⁰⁵. Free trade agreements are in place with countries of the former Soviet Union, and several other countries, totalling 43 in all; Russia is a particularly important trading partner¹⁰⁶. Moldova is part of the Commonwealth of Independent States (CIS) Free Trade Area (FTA). In 2002 Georgia, Ukraine, Azerbaijan and Moldova signed the GUAM agreement towards the creation of a free trade zone where customs fees and other barriers to movement of goods would be eliminated¹⁰⁷. Moldova is also party to the Central European Free Trade Agreement allowing duty free access to Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia, Montenegro and Kosovo¹⁰⁸.

FDI has previously been attracted in the sectors of finance, automotive, light industry, agriculture, food processing, wine and real estate¹⁰⁹. The National Strategy for Investment Attraction and Export Promotion 2016-2020 identifies the following seven key sectors for investment promotion: agriculture and food, automotive, business services like business processing outsourcing, clothing and footwear, electronics, information and communication technologies (ICT), and machinery¹¹⁰. Moldova has an investment promotion agency called Moldovan Investment and Export Promotion Organization (MIEPO), which provides prospective investors with information about registration, or industrial sectors, and facilitates interactions with the relevant authorities¹¹¹. In 2018 a new investment agency was proposed which would combine MIEPO and the Tourism Agency¹¹².

98 U.S. Department of State, July 2018.

99 SDC, December 2017.

100 CIA World Factbook, 2018.

101 Ibid.

102 Ibid.

103 U.S. Department of State, July 2018.

104 Ibid.

105 Eco-Accord, 2013.

106 U.S. Department of State, July 2018

107 PwC, 2017.

108 Ibid.

109 Ibid.

110 Ibid.

111 Ibid.

112 Ibid.



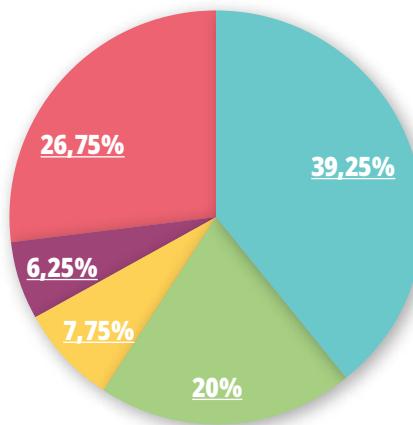
In 1995 Moldova introduced legislation allowing for the development of free economic zones (FEZs), with the aim of accelerating socioeconomic development by attracting FDI and domestic investment¹¹³. Seven free economic zones (FEZs), which incentivise local and foreign investment have been established by the government to improve the pace of FDI, and it has improved somewhat, mainly in the automotive sector¹¹⁴. Tax advantages granted to FEZs are extensive, as income tax and VAT rates are lower; customs operations are streamlined to support export promotion and attract investments¹¹⁵. The effect of FEZs on domestic firms appears limited, and the spill-overs seem unlikely to contribute to significant technological upgrading, strengthening sectoral links, and diversification in the Moldovan economy overall¹¹⁶. Part of this seems to be due to the largest companies in FEZs being part of global value chains, with most inputs sourced internationally, and with few links to domestic firms, though domestic firms do often provide non-industry related services¹¹⁷.

Moldova EESE Survey enterprises respondents were asked whether Moldovan commercial and custom regulations created major problems for the performance of the international trade of the Moldovan enterprises. Almost half of the representatives of the surveyed enterprises think that Moldovan commercial and custom regulations create major problems for the performance of the international trade of the Moldovan enterprises, with 39.3% thinking they cause rather important problems, and 7.8% saying they caused very important problems. Furthermore, 20% of respondents mentioned that they cause slightly important problems. Over a quarter, at 26.8% either did not know or elected not to answer. **CHART 35**

"Trade as a percentage of GDP" measures the sum of exports and imports of goods and services as a share of gross domestic product. The trade-to-

CHART 35: Do Moldovan commercial and custom regulations create major problems for the performance of the international trade of the Moldovan enterprises?

Rather important Slightly important
Very important At all important DK-DA-N/A



Source: Moldova EESE Survey

GDP ratio refers to the sum of the imports and exports and could therefore exceed 100%. If we analyse the countries used for comparison, Moldova's trade indicator is at the value of 115.39% of its GDP in 2016. This is lower than Malta, the highest of the comparison countries in that year with 268.19%, Estonia at 154.10% and Slovenia at 146.15%. Moldova's trade as a percentage of GDP is higher than Romania's which was 83.71% in 2016, and Albania's at 74.79%. **FIGURE 9**

The Export Propensity Index looks at the share of exports of goods and services in GDP. Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude labour and property income (formerly called factor services) as well as transfer payments. Moldova performs rather poorly on

113 World Bank, 3 March 2016.

114 SDC, December 2017.

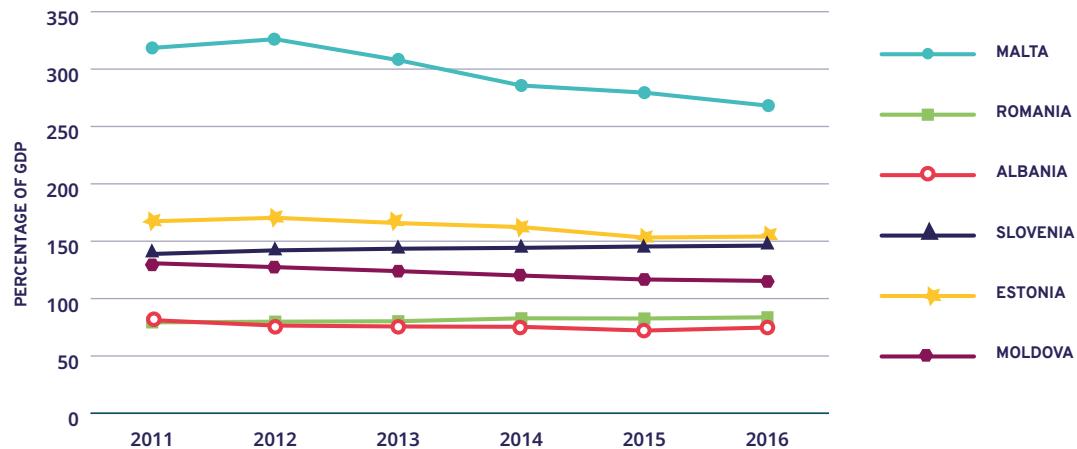
115 World Bank, 3 March 2016.

116 Ibid.

117 Ibid.

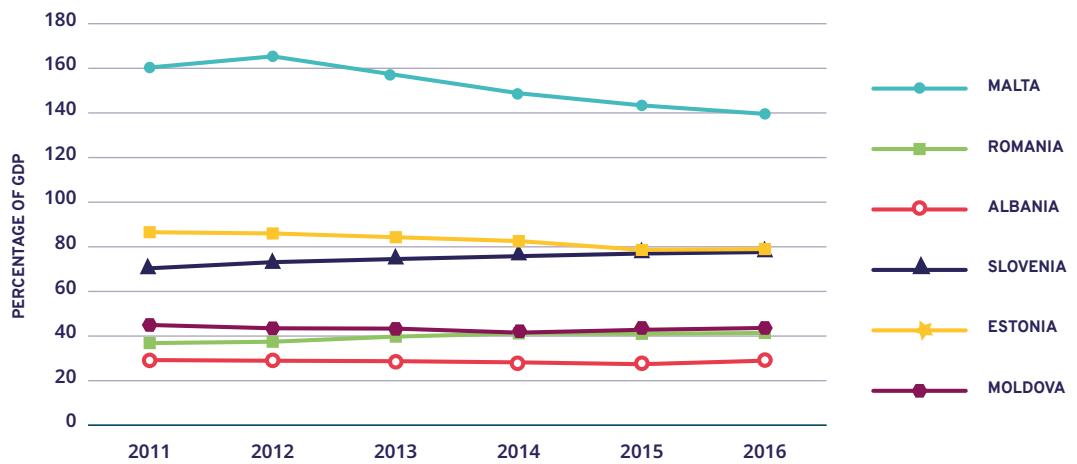


FIGURE 9: Trade as a percentage of GDP



Source: World Bank: World Development Indicators

FIGURE 10: Export Propensity Index



Source: World Bank: World Development Indicators

this indicator with a value of 43.63% of exports of goods and services making up the GDP, which is the among lowest of all the countries used for comparison. At 28.97% in 2016 Albania was lowest, followed by Romania at 41.39%. Malta has the

highest value at 139.58% in 2016, while Estonia and Slovenia were 78.98% and 77.65% respectively. **FIGURE 10**



KEY INDICATORS

Trade (% of GDP)

Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product (GDP).¹²⁰

Please note that the trade-to-GDP ratio refers to the sum of the imports and exports and could therefore exceed 100%.

Source: World Bank, World Development Indicators

	2011	2012	2013	2014	2015	2016
Moldova	130.80	127.42	123.94	120.06	116.67	115.39
Estonia	167.35	170.43	165.79	162.31	153.21	154.10
Slovenia	138.91	142.03	143.47	144.23	145.40	146.15
Albania	81.22	76.51	75.70	75.41	72.13	74.79
Romania	79.26	79.90	80.27	82.82	82.65	83.71
Malta	318.47	326.07	307.83	285.71	279.49	268.19

FDI net inflow/GDP, in percent

Foreign direct investment is the net inflows of investment to acquire a lasting management interest (10% or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows in the reporting economy and is divided by GDP.

Source: World Bank, World Development Indicators

	2010	2011	2012	2013	2014	2015
Moldova	4.96	3.44	3.03	4.28	3.32	1.35
Estonia	4.83	7.76	4.37	6.68	-3.20	3.18
Slovenia	1.71	0.07	0.22	2.04	4.02	3.27
Albania	8.13	7.45	9.82	8.69	8.73	8.80
Romania	1.28	1.78	2.01	1.94	2.43	3.33
Malta	82.08	36.12	5.03	1.37	28.68	22.54

Export Propensity Index= exports of goods and services/GDP, in percent

Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude labour and property income (formerly called factor services) as well as transfer payments.

It ranges from 0 (with no exports) to 100 (with all domestic production exported).

Source: World Bank, World Development Indicators

	2011	2012	2013	2014	2015	2016
Moldova	44.97	43.48	43.34	41.53	42.80	43.63
Estonia	86.54	85.99	84.30	82.57	78.61	78.98
Slovenia	70.37	73.12	74.52	75.81	76.99	77.65
Albania	29.24	28.94	28.74	28.21	27.39	28.97
Romania	36.85	37.46	39.75	41.19	41.01	41.39
Malta	160.36	165.36	157.05	148.82	143.37	139.58



Trading Across Border Data

Ease of doing business index ranks economies from 1 to 183, with first place being the best. The cost to export is the cost US\$ per container. The number of import and export documents required to carry out an international trade transaction. The time to export and import is measured in days.

Source: World Bank, Doing Business Project

		DB 2013	DB 2014	DB 2015	DB 2016	DB 2017	DB 2018
	Rank	142	150	152	33	34	35
Moldova	DFT	53	53.87	54.97	92.39	92.32	92.32
	Rank	7	7	6	24	17	17
Estonia	DFT	92.33	92.51	92.76	94.89	99.92	99.92
	Rank	57	48	53	1	1	1
Slovenia	DFT	79.23	79.24	79.29	100	100	100
	Rank	79	85	95	37	24	24
Albania	DFT	72.41	72.55	72.48	91.61	96.29	96.29
	Rank	72	76	65	1	1	1
Romania	DFT	76.33	76.86	77.23	100	100	100
	Rank	34	34	43	39	40	41
Malta	DFT	81.32	81.44	81.56	90.72	91.01	91.01

3.3 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. While infrastructure and the provision of basic utilities have improved in Moldova, spurring economic growth, legislation remains unclear and incomplete in some areas, and enforcement remains problematic because of corruption, political upheaval and changes in government. Over the years the Government of Moldova has taken steps to streamline and simplify the process of business registration and licensing, lowered tax rates, and strengthened tax administration¹¹⁸. Starting a business became easier in 2014, when the minimum capital requirement was abolished, and an electronic system for filing and paying social security contributions made paying taxes easier for companies¹¹⁹.

In the context of countries in Central and Eastern Europe the informal economy is characterized by economic activities outside the formal reach of labour legislation, as well as by economic activities within the formal reach of the law but for which the law is not effectively enforced, or applied in practice¹²⁰. This would include enterprises operating without business registration, wage workers without proper contracts, workers in informal micro-enterprises, and people working on their own account or in a family farm or enterprise without documentation¹²¹. Under these conditions workers typically lack representation, right to association, and social protection¹²².

A 2011 study by the Ministry of Labour, Social Protection and Family estimated that about 57% of the working population did not fully report their salaries, as the returns to taxes are seen as insig-

120 ILO, 2016b.

121 ILO, 2016b.

122 ILO, 2016b.

118 U.S. Department of State, July 2018.

119 World Bank, 9 April 2015.



nificant¹²³. In 2013, 30.9% of the total employed population had an informal job and 68.7% of informal jobs are in the agricultural sector¹²⁴.

A new 2018-2020 action plan for business regulatory framework reform, to facilitate day-to-day business activity was introduced. There was public criticism, and international objection to proposed Government of Moldova legislation to reorganize the responsibilities of inspections and law enforcement agencies, which led to the proposals needing to be reconsidered¹²⁵. All regulations and governmental decisions related to business activity have been published in a special business registry in order to increase transparency, battle corruption, and make businesspeople aware of their rights¹²⁶. Bureaucratic procedures are not always transparent, and processing registrations can become long and expensive procedures¹²⁷.

There are currently no procedures for online business registration, but by law registration should take 5 days for a standard procedure, or four hours for an expedited procedure¹²⁸. Business registration is managed by the Public Services Agency, a body resulting from the 2017 merger of the State Registration Chamber, Licensing Chamber, Land Registry, Civil Records Service and the Centre for State Information Resources¹²⁹.

In 2017 a total of 6,406 enterprises were registered in Moldova which was 13% more than in the previous year; according to the State Registration Chamber about 64% were registered in Chisinau¹³⁰. In total of the companies registered in Moldova 53% are active in trade, 12% in manufacturing, 6% in agriculture, 5% in transport, 4% in hotels and 2% in finance and construction¹³¹.

123 ILO, 2016b.

124 ILO, 2016b.

125 U.S. Department of State, July 2018.

126 Ibid.

127 Ibid.

128 Ibid.

129 Ibid.

130 EU4Business, 2 February 2018.

131 Ibid.

SMEs are responsible for over 50% of the jobs in Moldova, and generate more than 30% of the country's income but it is difficult to get finance and enter new markets¹³².

A specialized Economic Court exists as part of the judicial system, established to administer justice in cases deriving from economic relations between individuals and legal entities¹³³. In 2017 a law simplifying the system of inspectorates and various inspection bodies was adopted, to increase efficiency and reduce the regulatory burden: however legislation remains incomplete and implementation cannot begin until a full framework is in place¹³⁴.

When asked about how encouraging they thought the Moldovan legal and regulatory framework was for the functioning and the development of enterprises 52.8% of Moldova EESE Survey enterprise respondents said they did not really find it encouraging; 24.8% said they found it quite encouraging, with 10.3% finding it not at all encouraging, and 2.8% finding it very encouraging. **CHART 36**

When asked specifically about support from the regulatory environment for micro, small and medium enterprises 38.5% of enterprises respondents said they sometimes found it a hindrance, while 30.8% found it relatively supportive, 5.8% found it to be a major obstacle, and 2.8% found it to be very supportive. About the functioning and development of large enterprises 29.5% found the regulatory framework to be relatively supportive, with 25% finding it to be sometimes a hindrance about 3% each finding it to be a major obstacle, and very supportive. **CHART 37**

Moldova EESE Survey enterprises respondents were asked if time spent on ensuring compliance with government regulations posed a major problem for Moldovan enterprises. The largest proportion, 46.8% of respondents, stated that the time spent on ensuring compliance was gener-

132 Ibid.

133 Globalex, April 2012.

134 U.S. Department of State, July 2018.



ally a problem, while 9.5% found it to be a large problem. 30.5% said it was generally not a problem, and 3.3 fond that it was not a problem at all.

CHART 38

When asked about how difficult it was to obtain licences, permits and authorizations for businesses in Moldova the largest proportion of enterprises respondents, at 44% said that it was rather easy, while 38.3% also said it was rather difficult. Similarly comparable proportions found it to be very difficult, at 5.8%, and very easy, at 6.5%. **CHART 39**

The Moldova ESEE Survey asked about whether general rules for issuing licences, permits and authorizations complied with minimal standards of transparency and clarity. In response 54.8% of enterprises respondents thought that they did somewhat comply with minimal standards, and 4.3% of respondents thought that the rules were completely transparent and clear. Yet 30.5% thought that they rather did not comply with minimal standards, while 3.8% thought that this was not at all the case. **CHART 40**

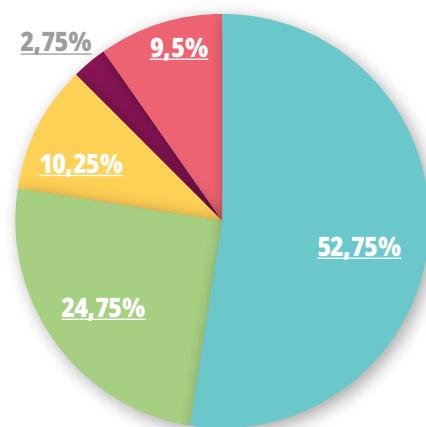
When asked about whether the general rules for issuing licences, permits and authorizations were applied by all authorities uniformly for all enterprises, the proportions were similar. 44% of enterprise representatives thought they were rather uniformly applied, while 33.8% thought they were rather not uniformly applied. 5% thought rules were not at all uniformly applied while 3.8% thought they were entirely uniformly applied.

When asked about the extent to which recent regulatory reforms to reduce the number of required permits affected the business environment, 30% of enterprises respondents said they found no difference, while 31.8% either did not know or decided not to answer. 27.8% of survey respondents found that recent reforms had a positive effect on the business environment, with 6.5% finding it had a negative impact, and 4% finding it had a very positive impact.

Enterprises respondents were also asked about how recent regulatory reform to reduce the number of control and inspection bodies had affected the business environment. Half of the respond-

CHART 36: How encouraging is the Moldovan legal and regulatory framework for the functioning and the development of enterprises?

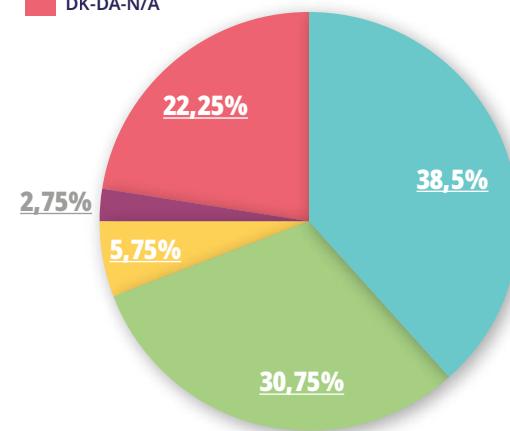
Not really encouraging Quite encouraging
Not at all encouraging Very encouraging DK-DA-N/A



Source: Moldova ESEE Survey

CHART 37: How supportive is the Moldovan legal and regulatory framework for the functioning and the development of micro, small and medium enterprises?

Sometimes a hindrance It is relatively supportive
It is a major obstacle It is very supportive
DK-DA-N/A

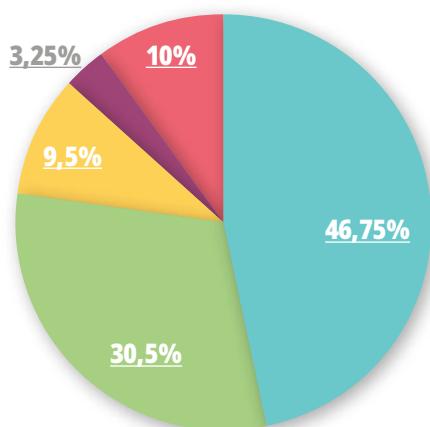


Source: Moldova ESEE Survey



CHART 38: Is the time spent to ensure compliance with government regulations a major problem for Moldovan enterprises?

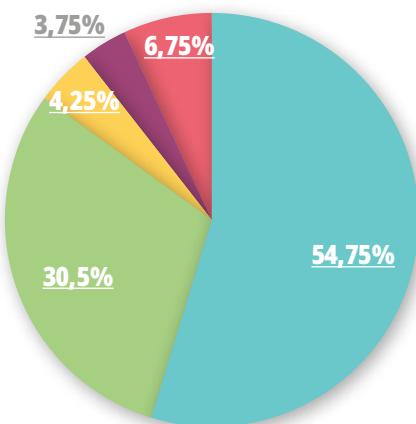
Generally, yes Generally, no Yes, largely
Not at all DK-DA-N/A



Source: Moldova EESE Survey

CHART 40: Do the rules for issuing licences, permits and authorizations comply with minimal standards of transparency and clarity?

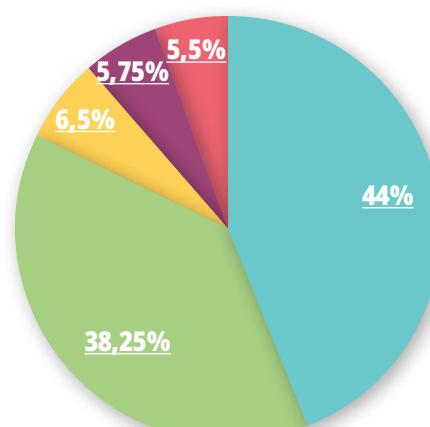
Rather, yes Rather not Yes, entirely
Not at all DK-DA-N/A



Source: Moldova EESE Survey

CHART 39: How difficult is it to obtain licences, permits and authorizations for businesses in Moldova?

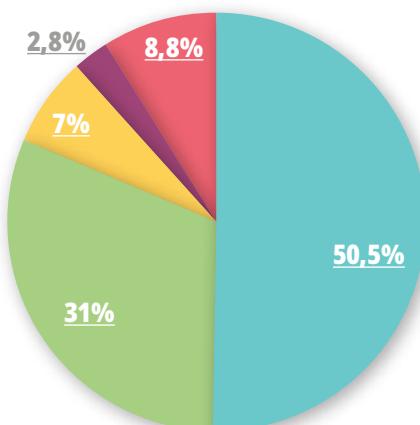
Rather easy Rather difficult Very easy
Very difficult DK-DA-N/A



Source: Moldova EESE Survey

CHART 41: How has the recent regulatory reform to reduce the number of control and inspection bodies affected the business environment?

Positively No Difference Very Positively
Negatively DK-DA-N/A



Source: Moldova EESE Survey



ents (50.5%) stated that they saw a positive impact on the business environment, while 31% found that there was no difference, 7% found a very positive impact, and 2.8% thought that there was a negative impact. **CHART 41**

Enterprises respondents were also asked about whether their enterprises had registered fewer controls during the last year as a result of reform of inspection and control bodies. Answers were fairly mixed with 41.5% finding that they had registered fewer controls, but 37.3% found no difference. When asked about the new online platform to apply for licenses and permits respondents were more decidedly positive, with 48.5% saying they were satisfied, and 10% finding that they were very satisfied; 14.3% said they found no difference, and 2.5% said they were very dissatisfied with the online platform. **CHART 42**

Labour law and its implementation is a key part of the enabling legal and regulatory environment in a country. The Moldova ESEE Survey examined responses to various aspects of labour law and its implementation. According to the opinions expressed by the enterprises representatives, generally, the business community and investors understand labour law; 43% of respondents thought labour laws were generally understood, while 42.3% thought they were partially understood; only 4.8% thought they were not understood, and 5.3% thought they were widely understood. A further 51.3% of respondents thought that the provisions of the Labour Code (employment, wage, dismissal, etc.) were slightly adjusted to the demands of a market economy, and 33% thought they were largely adjusted to the demands of a market economy. Only 2.5% thought the provisions of the Labour Code fully reflected the demands of the market economy, while 6% thought they did not do so at all.

When asked about the extent to which provisions of the Labour Code affected the growth of micro, small and medium enterprises in Moldova 42.5% of enterprises respondents from the ESEE Survey found that they rather didn't, while 37% found that they mostly did; 3.3% felt that they affected the growth of SMEs to a high degree, while 6.8% thought they did not at all. **CHART 43**

Similarly, when asked about their views on the extent to which the provisions of the Labour Code affected the growth of large enterprises in Moldova 36% of enterprises respondents thought that provisions of the Labour Code rather didn't affect the growth of large enterprises while 25.3% thought that they rather did. About 4% each thought that they didn't at all, and that they did entirely.

When asked about the extent to which they thought the Labour Code offers a favourable framework for the efficient management of the enterprise human resources, enterprises respondents responded mostly positively, though there was also a great deal of ambivalence. 44.3% thought that the Labour Code offered a favourable framework to a large extent, for the efficient management of human resources, while 40.8% thought this happened only to a small extent; 4.3% thought this was fully the case, while 3.5% did not think this happened at all. **CHART 44**

When asked about the impact of recent changes to labour legislation survey responses were mixed. About a quarter of surveyed enterprise representatives thought that the recent amendments to make labor legislation more flexible influenced the enterprises positively, 24.3%, and very positively at 1%. 31.8% of respondents surveyed mentioned that there is no difference and 2.3% that those changes have had a negative impact. 40.8% of enterprises representatives surveyed either did not know or chose not to answer the question. **CHART 45**

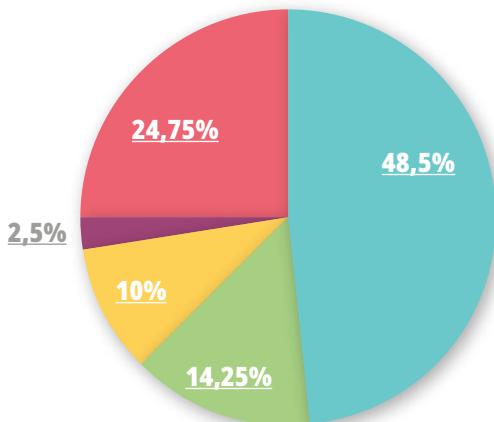
Enterprise survey respondents were asked to rank the three biggest barriers to formalizing a business in Moldova. The ones they selected most often were paying taxes and social contributions, the fact that hiring personnel was problematic, and the lack of knowledge about registration procedures. **CHART 46**

The key informant interviews supplement the findings of the survey by identifying corruption and the high cost of business, and long waits for permits in some sectors as significant impediments to the development of enterprises. The experts interviewed for this study highlighted the lack of interest shown by representatives from the state



CHART 42: To what extent are you satisfied with the online platform to apply for licenses and permits?

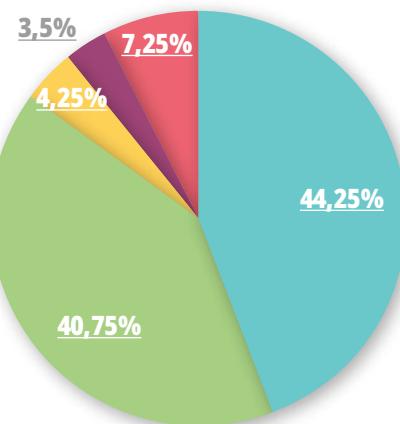
Satisfied No difference Very satisfied
Not at all DK-DA-N/A



Source: Moldova EESE Survey

CHART 44: To what extent do you think that the Labour Code offers a favourable framework for the efficient management of the enterprise human resources?

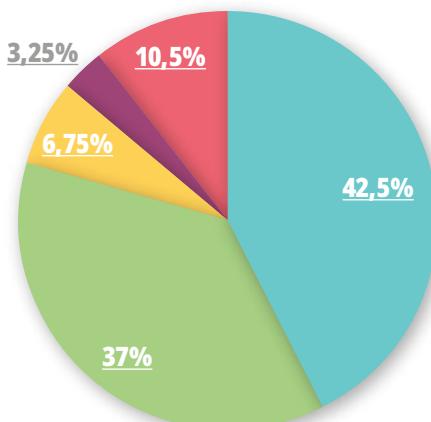
To a large extent To a small extent Fully
At all DK-DA-N/A



Source: Moldova EESE Survey

CHART 43: To what extent do provisions of the Labour Code affect growth of micro, small and medium enterprises in Moldova?

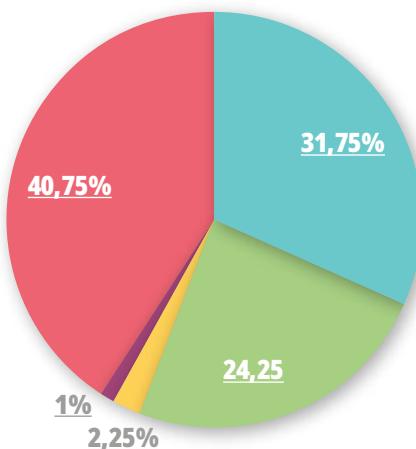
Rather not Rather, yes Not at all
Yes, entirely DK-DA-N/A



Source: Moldova EESE Survey

CHART 45: In your opinion, how have recent amendments to make labour legislation more flexible affected the enterprises?

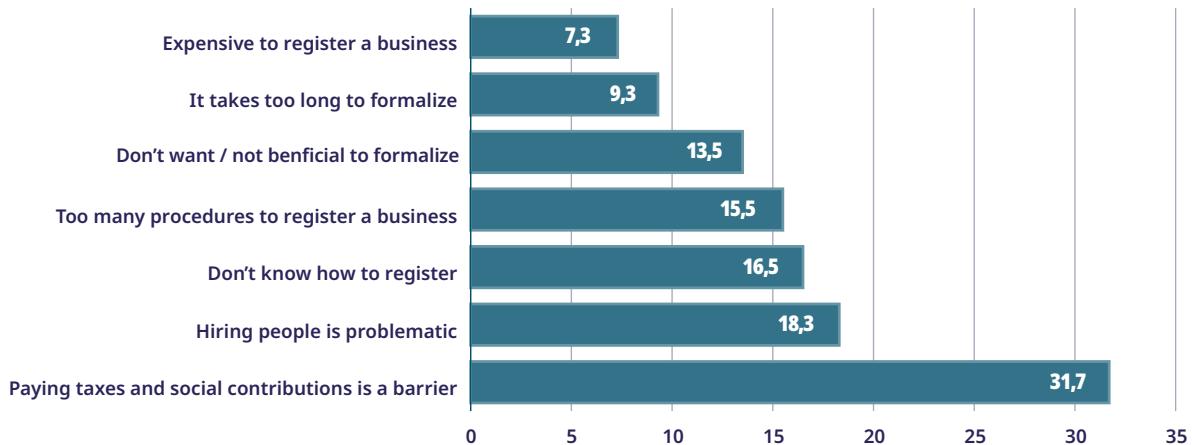
No difference Positively Negatively
Very positively DK-DA-N/A



Source: Moldova EESE Survey



CHART 46: In your opinion, what are the biggest barriers to formalizing a business in Moldova?



Source: Moldova ESE Survey

institutions in the development of enterprises, which turns into a rather formal approach in dealing with the needs that exist and requests that are expressed by the business community representatives; they also underlined the impediments posed by limited access to financial resources, particularly for small enterprises.

The lack of sufficiently qualified human resources was mentioned, along with the associated poor capacity of the state policies to stimulate the companies' growth by contributing to the development of human capital. Additionally, according to the opinions expressed by the experts interviewed, state institutions offer very modest support towards the development of the enterprises and most of enterprises struggle to survive. On the other hand there have been some positive developments in recent years, which were also mentioned. These include the establishment of a single desk for issuing documents for businesses ("ghiseu unic"), better intellectual property protection measures, regulation of competition and measures to promote environmental protection.

The 2018 Doing Business Report of the World Bank found that in 2017 Moldova had implemented one key reform, which was to make starting a business easier by removing the requirement to

register with the Social Security Fund¹³⁵. Reforms from 2016 included streamlining the process of obtaining a new electricity connection, making paying taxes easier, and making enforcing contracts easier by adopting a new mediation law establishing financial incentives for parties to address issues through mediation¹³⁶.

The Ease of Doing Business Index ranks economies from 1 to 190, with first place being the best. Based on the latest World Bank report Moldova is ranked 44th. As seen in the graph above Moldova performs worse than Slovenia and Estonia, but better than Albania and Malta. Overall, the regulatory framework for the development of sustainable enterprises in Moldova has improved since 2016. **FIGURE 11**

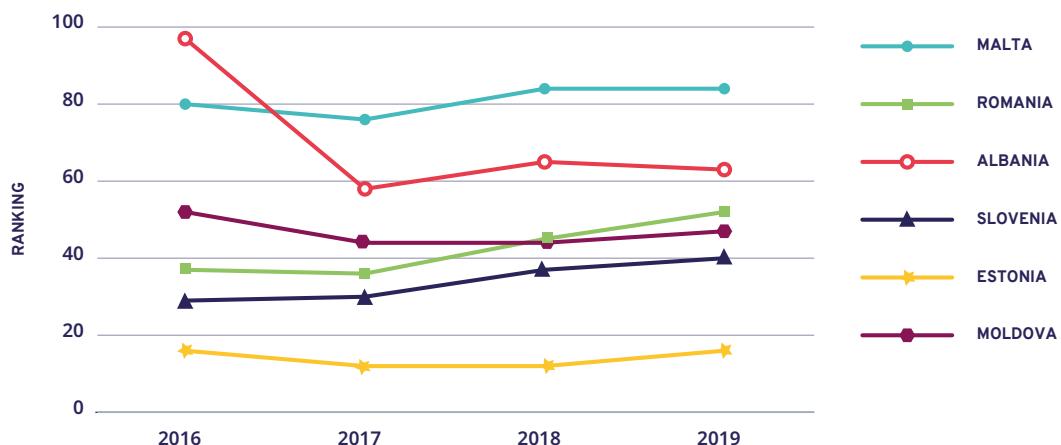
The Starting a Business Rank records all procedures that are officially required for an entrepreneur to start up and formally operate an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with

¹³⁵ World Bank, November 2017.

¹³⁶ Ibid.

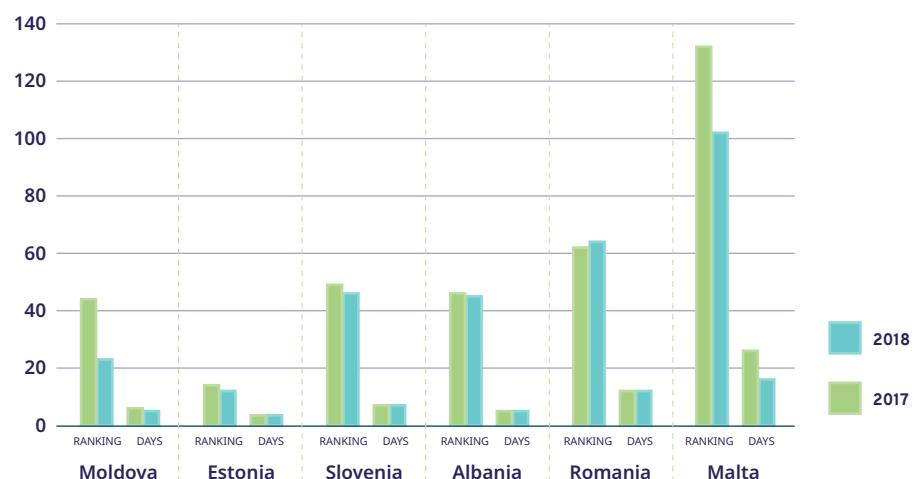


FIGURE 11: Ease of Doing Business Ranking



Source: World Bank: Doing Business Reports

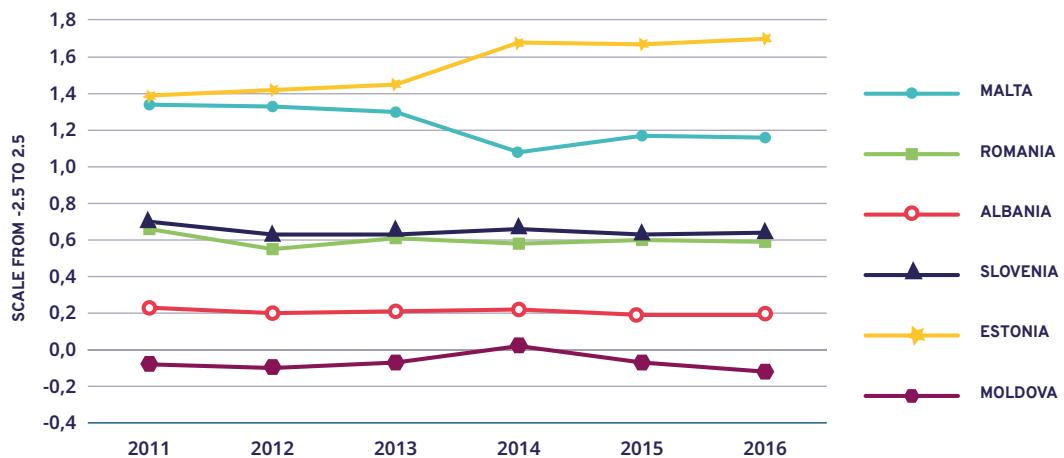
FIGURE 12: Starting a Business Rank



Source: World Bank: Doing Business Reports



FIGURE 13: Regulatory Quality Index Estimate



Source: World Bank: Worldwide Governance Indicators

relevant authorities. In 2018 Moldova was ranked at 23 out of 189, with first place being the best, which is a relatively high ranking. In the same year Estonia was ranked 12, while Albania was at 45, Slovenia at 46 and Malta at 102. **FIGURE 12**

The Regulatory Quality Index measures the ability of the government to provide sound policies and regulations that enable and promote private sector development. The estimate of governance is measured on a scale from approximately -2.5 to 2.5 with higher values corresponding to better governance. Moldova performs poorly in this regard, with consistently the lowest values among the countries examined. In 2012 Moldova was at an estimate of -0.08, which worsened to -0.12 in

2016. All the other countries used for comparison also saw dropping values over time, except Estonia which improved from 1.39 in 2011 to 1.70, which was also the highest value of all the countries, in 2016. Malta was next highest at 1.16, Slovenia next at 0.64, followed by Romania at 0.59, and Albania at 0.19 in 2016. The indicator represents the state of regulatory stability in the country with lower values representing lower trust in the Government. More comprehensive reforms and legislative changes will be needed for this indicator to improve, as well as improvement in enforcement of regulations. **FIGURE 13**



KEY INDICATORS

Regulatory Quality

The ability of the Government to provide sound policies and regulations that enable and promote private sector development. Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.

Source: World Bank, Worldwide Governance Indicators

	2011	2012	2013	2014	2015	2016
Moldova	-0.08	-0.10	-0.07	0.02	-0.07	-0.12
Estonia	1.39	1.42	1.45	1.68	1.67	1.70
Slovenia	0.70	0.63	0.63	0.66	0.63	0.64
Albania	0.23	0.20	0.21	0.22	0.19	0.19
Romania	0.66	0.55	0.61	0.58	0.60	0.59
Malta	1.34	1.33	1.30	1.08	1.17	1.16

Starting a Business

Starting a Business Index records all procedures that are officially required for an entrepreneur to start up and formally operate an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities.

The index ranks economies from 1 to 185, with first place being the best.

Source: World Bank, Doing Business Project

		2016	2017
		DB 2017 Report	DB 2018 Report
Moldova	Ranking	44	23
	Days	6	5
Estonia	Ranking	14	12
	Days	3.5	3.5
Slovenia	Ranking	49	46
	Days	7	7
Albania	Ranking	46	45
	Days	5	5
Romania	Ranking	62	64
	Days	12	12
Malta	Ranking	132	102
	Days	26	16



3.4 Rule of law and secure property rights

A formal and effective legal system, which guarantees that contracts are honoured and upheld, the rule of law is respected, and property rights are secure, is a key condition for attracting investment, as well as for nurturing trust and fairness in society. In many countries where legal processes are still evolving, the dominant problem is underdeveloped institutions integral to the market economy, chief among these being the security of property rights.

As in other former Soviet republics, the Government of Moldova once owned and allocated all land resources, and most buildings¹³⁷. A modern land administration system, with security for local property owners, international investors, lenders and governments, is a key component of a functioning market economy¹³⁸. There is a need to strengthen the rule of law and accountability of institutions by enhancing the security of property rights, increasing the transparency of property data and improving registration systems¹³⁹.

Moldova is a civil law country, with its legal framework based largely on statutory law¹⁴⁰. In 2003 new civil, penal and procedural codes were adopted, and the entire legal system has undergone major changes in the post-Soviet era¹⁴¹. The judicial system currently has three branches: ordinary courts, courts of appeal, and the Supreme Court¹⁴². A constitutional court, independent of the executive, legislative and judiciary branches also exists, dealing exclusively with constitutionality issues of the law¹⁴³. The constitution permits the establishment of specialised courts, an Economic Court has been established to hear economic disputes¹⁴⁴.

In theory, the court system is independent of the executive, and so this should not affect foreign or domestic investors, but there has been a politicization of the judiciary in Moldova¹⁴⁵. Justice reform has stagnated in the last few years; the ways in which judges and key officials are selected continues to be a cause of concern, particularly with respect to integrity and their ability to maintain independence of political influence¹⁴⁶. In October 2017 the lack of commitment to progress and reforms in the justice sector caused the EU to cut budgetary support in this area¹⁴⁷.

Towards creating a comprehensive legislative base for transitioning to a market economy Moldova has adopted several new laws and regulations, including a new bankruptcy law, a competition law, and legislation on payment services and electronic money¹⁴⁸. An EBRD Judicial Decisions Assessment of 2010 found that court judgements in commercial law matters in Moldova were of moderate quality and predictability; lower court judges tended to be more familiar with general principles of laws and civil code provisions, which were more often applied to judgements than the relevant provisions of commercial laws¹⁴⁹. In general commercial laws need modernisation, and the courts' capacity to handle commercial law and practice needs to be built¹⁵⁰. Even strong laws suffer from the lack of consistent implementation, with a weak judiciary and complex enforcement procedures further reducing faith in judicial processes¹⁵¹.

In 1998 the first World Bank funded cadastre project was launched, to establish an efficient national system, to comprehensively register property, and enable the development of a local real estate market¹⁵². Only Moldovan citizens have the right

137 World Bank, September 2009.

138 World Bank, September 2009.

139 World Bank, 30 August 2018.

140 PwC, 2017.

141 Globalex, April 2012.

142 Ibid.

143 Ibid.

144 EBRD, July 2014.

145 Freedom House, 2018.

146 Ibid.

147 Ibid.

148 EBRD, July 2014.

149 Ibid.

150 Ibid.

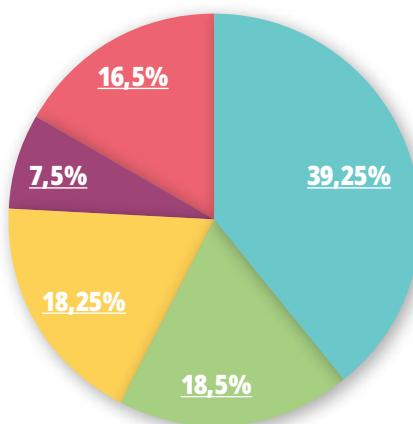
151 Ibid.

152 World Bank, September 2009.



CHART 47: To what extent do you agree with the statement “the law is open to political interference”?

█ Somewhat agree █ Agree █ Disagree
█ Completely agree █ DK-DA-N/A



Source: Moldova EESE Survey

to purchase agricultural and forest land; foreigners may only become owners of agricultural land through inheritance and they may only transfer this land to Moldovan citizens¹⁵³. In 2006, the right of sale and purchase of agricultural land was restricted to the state, Moldovan citizens, and legal entities without foreign capital; foreigners are allowed to buy all other forms of property, including land plots under privatized enterprises, and land marked for construction¹⁵⁴. In 2018 a USD 35 million loan was approved by the World Bank towards a Land Registration and Property Valuation Project, aimed at improving transparency and efficiency of the cadastre¹⁵⁵.

The laws regulating intellectual property cover patents on inventions, copyright and other re-

lated rights, industrial design protection, trademarks and appellations of the origin of goods, plan variety protection and the protection of integrated circuit topographies¹⁵⁶. The State Agency for Intellectual Property (AGEPI) is the state regulatory body for the legal protection of trademarks, patents and copyrights¹⁵⁷.

Amendments to the national legal framework on intellectual property rights have been undertaken in order to harmonize with EU legislation¹⁵⁸. In 2015 a second action plan on the implementation of a national strategy on intellectual property was adopted, which will continue till 2020¹⁵⁹. The enforcement of intellectual property rights is not very strong, as there is a lack of resources, low awareness, and conflicts of interest¹⁶⁰.

The Moldova EESE Survey asked enterprises respondents to what extent they agreed with the statement that the law was open to political interference. The results show that there is a widespread perception that the law is open to manipulation by political interests. 39.3% of respondents agreed with the statement that this is to some degree the case, while 18.5% agreed and 7.5 completely agreed; a further 18.3% completely disagreed while 16.5 either did not know or would not say. **CHART 47**

Enterprises respondents were asked about the extent to which they agreed with the statement “there are effective legal institutions to assist in resolving commercial disputes”. Three out of five respondents (59.8%) said that they somewhat agreed that this was the case, 11% agreed and 1.5% completely agreed, while 17% disagreed. **CHART 48**

Enterprises respondents had a similarly positive response when asked about their views on the availability of effective contract enforcement and

156 PwC, 2017.

157 Ibid.

158 AGEPI, 25 September 2018.

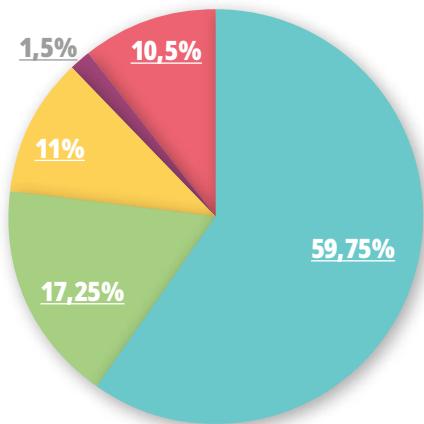
159 U.S. Department of State, July 2018.

160 Ibid.



CHART 48: To what extent do you agree with the statement “there are effective legal institutions to assist in resolving commercial disputes”?

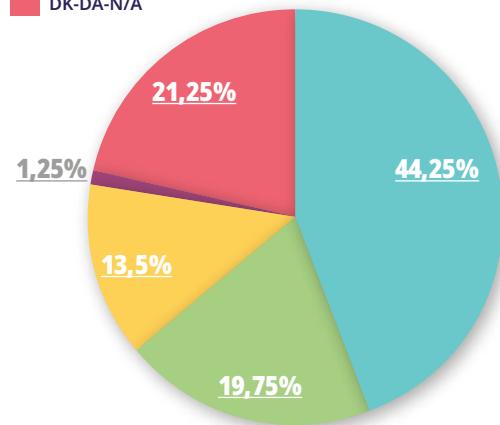
■ Somewhat agree ■ Disagree ■ Agree
■ Completely agree ■ DK-DA-N/A



Source: Moldova EESE Survey

CHART 50: How well is commercial law implemented for settling commercial disputes such as breach of contract?

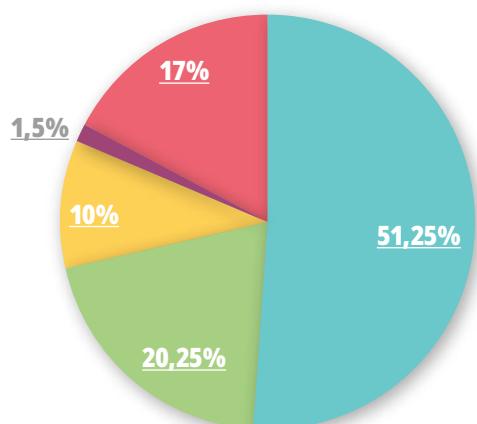
■ Always effective and follows a clear, neutral process ■ Usually effective and rarely subject to manipulation
■ Sometimes ineffective and subject to manipulation ■ Ineffective and subject to manipulation
■ DK-DA-N/A



Source: Moldova EESE Survey

CHART 49: Are the available contract enforcement and dispute resolution mechanisms effective in terms of waiting periods and costs, etc.?

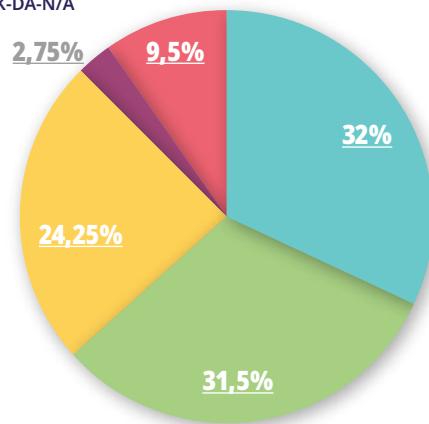
■ Somewhat agree ■ No, not at all ■ Mostly
■ Completely ■ DK-DA-N/A



Source: Moldova EESE Survey

CHART 51: To what extent are physical property rights and intellectual property rights defined and protected?

■ Well defined but not well protected by law ■ Clearly defined and well protected by law
■ Poorly defined and not well protected by law ■ Non-Existent
■ DK-DA-N/A



Source: Moldova EESE Survey



dispute resolution mechanisms in terms of waiting periods and costs. 51.3% of respondents agreed that available contract enforcement mechanisms were somewhat effective, while 10% found them mostly effective, and 1.5% found them completely effective; in comparison a large 20.3% found them to not at all be effective, which at one fifth is a sizeable proportion as well. **CHART 49**

When asked for their opinion about how well commercial law was implemented for settling commercial disputes such as breach of contract the largest proportion, 44.3% of enterprises respondents said that they were sometimes ineffective and subject to manipulation. A further 19.8% find the implementation of commercial law to be inefficient and subject to manipulation, while 13.5% say it is usually effective and rarely subject to manipulation, and 1.3% find that it is always effective, following a clear and neutral process.

CHART 50

The Moldova EESE Survey also investigated aspects of enforcement of property rights, which are crucial for the growth of SMEs. The majority of enterprises respondents indicated that there are issues with respect to physical property rights. 32.0% of respondents mentioned that they are clearly defined but not protected, 24.3% of the respondents indicate that physical property rights are sometimes ineffective and subject to manipulation, while 31.5% of the respondents consider that physical property rights are clearly defined and protected by the law. **CHART 51**

On the subject of intellectual property rights a majority of the enterprises respondents indicated that there are issues with enforcement. 31% of survey respondents said that they were poorly defined and not protected by law, while 24.5% thought they were well defined but not well protected by law; 17% of respondents thought they were well defined and well protected while 5.5% thought they were non-existent, and over one fifth, at 22% did not know or chose not to say.

Interviews with key informants supplement the Moldova EESE Survey findings. The experts interviewed mentioned many strengths of the existing legal framework, which at least formally, is com-

mitted towards the development of the business environment. The critical challenge in this respect is that the laws are not being applied as they should be. This happens mainly due to the sub-optimal functioning of the justice system, which is controlled by a few interest groups and persons, making it difficult to assert that justice is correct, transparent and in favour of the business development. This situation generates a disappointment among business community representatives and many of them, particularly those representing small enterprises, either close their business or leave the country looking for better opportunities offered by other environments.

According to secondary data, the rule of law indicator has declined modestly, for Moldova, between 2011 and 2016, going from -0.33 in 2011 to -0.54 in 2016. The Rule of Law Index measures the extent to which agents have confidence in and abide by the rules of society. This includes quality of contract enforcement and property rights, the police, and the courts, as well as the likelihood of crime and violence. It is measured on a scale from -2.5 to 2.5 with higher values corresponding to better governance. In the same period all the countries improved, except Malta which went from 1.20 in 2011 to 1.08 in 2016. Moldova has the lowest values of the countries compared, while Estonia, Slovenia and Malta has the highest.

Another important indicator in this area is the Property Rights Indicator by the World Economic Forum. The World Economic Forum (WEF) Survey asks business leaders to provide their expert opinions on the following: "Property rights in your country, including over financial assets, are 1= poorly defined and not protected by law, 7=clearly defined and well protected by law". In 2017 Moldova was at 3.3, having improved from 3.2 in 2014 and 2015. Estonia has the highest value in 2017 at 5.4, followed by Malta at 5.1, then Romania and Slovenia at 4.4, and lastly Albania at 3.7.

The related indicator on Intellectual Property Protection is based on the World Economic Forum (WEF) Survey where business leaders are asked to provide their expert opinions on the following: "Intellectual property protection and anti-counterfeiting measures in your country are 1= weak



and not enforced, 7=strong and enforced". Compared to all other countries Moldova, at 3.5 in 2017 did not have the worst result, as in the same year Albania was at 3.4. Moldova also showed im-

provement, having started in 2014, at 2.8. Estonia performs best on this indicator, with a value of 5.4 in 2017, followed by Malta at 5. In 2017 Slovenia had a value of 4.7 and Romania of 4.6.

KEY INDICATORS

Rule of Law Index

The extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement and property rights, the police and the courts, as well as the likelihood of crime and violence.

Source: World Bank, Worldwide Governance Indicators

Estimate of governance measured on a scale from approximately -2.5 to 2.5. Higher values correspond to better governance.

	2011	2012	2013	2014	2015	2016
Moldova	-0.33	-0.32	-0.37	-0.25	-0.35	-0.54
Estonia	1.18	1.16	1.20	1.37	1.33	1.24
Slovenia	1.05	1.01	1.00	1.00	0.97	1.08
Albania	-0.46	-0.52	-0.52	-0.34	-0.33	-0.35
Romania	0.06	0.04	0.13	0.17	0.16	0.30
Malta	1.29	1.34	1.33	1.19	1.14	1.08

Property Rights

The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "Property rights in your country, including over financial assets, are 1=poorly defined and not protected by law, 7=clearly defined and well protected by law".

Source: World Economic Forum, The Global Competitiveness Report.

	GC Report 2014/15	GC Report 2015/16	GC Report 2016/17	GC Report 2017/18
Moldova	3.2	3.2	3.1	3.3
Estonia	5.2	5.4	5.5	5.4
Slovenia	4.2	4.3	4.4	4.4
Albania	2.8	3	3.5	3.7
Romania	4	3.9	3.9	4.4
Malta	5	4.9	5	5.1

Intellectual Property Protection

The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "Intellectual property protection and anti-counterfeiting measures in your country are 1=weak and not enforced, 7=strong and enforced".

Source: World Economic Forum, The Global Competitiveness Report.

	GC Report 2014/15	GC Report 2015/16	GC Report 2016/17	GC Report 2017/18
Moldova	2.8	3.1	3.4	3.5
Estonia	4.9	5.2	5.5	5.4
Slovenia	4.2	4.5	4.7	4.7
Albania	2.9	3.2	3.3	3.4
Romania	3.4	3.9	4.1	4.6
Malta	4.5	4.6	4.9	5



3.5 Fair competition

As a precondition for private sector and sustainable enterprises development and growth, it is important to have competition rules, including those ensuring respect for labour and social standards. Additionally, anti-competitive practices at the national level must be eliminated.

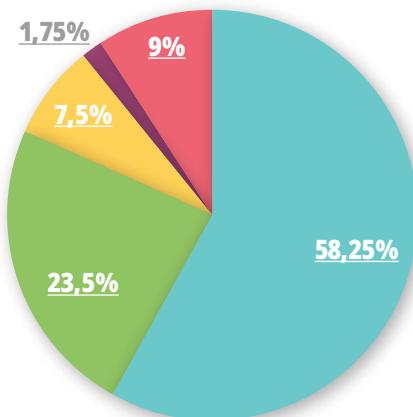
In 2007 a National Competition Agency was established, but foreign investors alleged that there were problems of lack of experience, flawed anti-trust legislation, and abuse, after foreign investors in particular were singled out for investigation¹⁶¹. In 2012 a new law on competition was passed that was more in line with EU legislation, and the National Competition Agency was reconstituted as the Competition Council¹⁶². The provisions of the new law came into force in 2015¹⁶³. The Competition Council enforces compliance with competition and state-aid provisions by initiating investigations into alleged violations¹⁶⁴.

In 2013 a Roadmap for increasing the Competitiveness of the Republic of Moldova was approved by the Government of Moldova, as a policy response to making full use of the opportunities opened by DCFTA to ensure a positive impact on local economic outcomes, and society¹⁶⁵. In 2017 Moldova improved its performance, by 11 positions, in a ranking of the most competitive countries carried out by the World Economic Forum¹⁶⁶.

Since independence in 1992 most state-owned enterprises (SOEs) in most sectors of the economy have been privatized; a few key enterprises remain in public hands, including two northern electrical distribution companies, the fixed-line operator Moldtelecom, the state airline Air Moldova, the state railway company, and the country's

CHART 52: How often does your enterprise participate in public procurement tenders?

Never Not very often Very often
All the time DK-DA-N/A



Source: Moldova ESEE Survey

largest tobacco company¹⁶⁷. Some activities are reserved for the state only, by the Law on Entrepreneurship and Enterprises, which specifies that, among other things, human and animal medical research, postal services, the sale and production of weapons, minting money, and real estate registration, are the preserve of the state¹⁶⁸.

SOEs usually have a board of directors who report to particular ministers, and not all of them are required to make their financial reports public¹⁶⁹. Moldovan legislation ensures a lack of discrimination between SOEs and privately-managed businesses but there have been allegations of SOEs having an advantage¹⁷⁰.

¹⁶¹ U.S. Department of State, July 2018.

¹⁶² Ibid.

¹⁶³ Schonherr, 3 June 2015.

¹⁶⁴ U.S. Department of State, July 2018.

¹⁶⁵ Government of Moldova, November 21, 2013.

¹⁶⁶ Moldpres, 27 September 2017.

¹⁶⁷ U.S. Department of Commerce, 2 November 2017.

¹⁶⁸ Ibid.

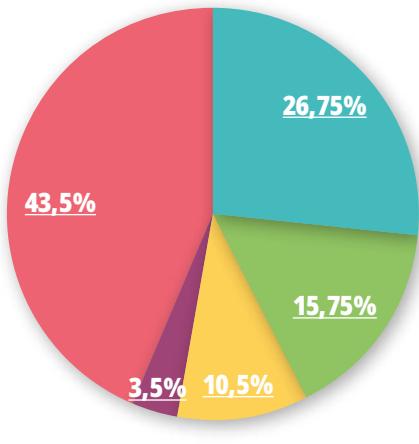
¹⁶⁹ Ibid.

¹⁷⁰ Ibid.



CHART 53: Are public procurement tenders organized in a transparent manner?

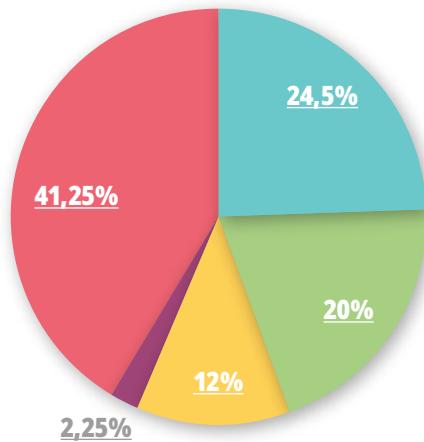
Not very often Very often Never
All the time DK-DA-N/A



Source: Moldova EESE Survey

CHART 54: How often can public tenders be won by the most competitive bidder without illicit payments to the officials responsible for tendering?

Not very often Very often Never
All the time DK-DA-N/A



Source: Moldova EESE Survey

The Moldova EESE Survey asked about participation in public procurement tenders, and their organization. It was found that more than half of the enterprises representatives (58.3%) do not participate in the public procurement tenders; only 1.8% do it always, 7.5% often and 23.5% rarely. **CHART 52**

When asked about the organization of the tenders an overwhelming majority, at 43.5% of respondents, did not know, or preferred not to answer. 26.8% of enterprises respondents thought that tenders were not very often organized in a sufficiently transparent manner, while 15.8% said this was very often the case, 3.5% said this was always the case, and 10.5% said this was never the case. **CHART 53**

The EESE Moldova Survey asked about how often the public tenders can be won by the most competitive bidder without illicit payments made to officials responsible for tendering. Again large number of enterprises respondents chose not

to answer the question, at 41.3%, with 24.5% responding that this did not happen often, 12% responding that it never happened, and on the other hand 2.3% responding that it was always the case that illicit payments were not required, and 20% responding that very often they were not required. **CHART 54**

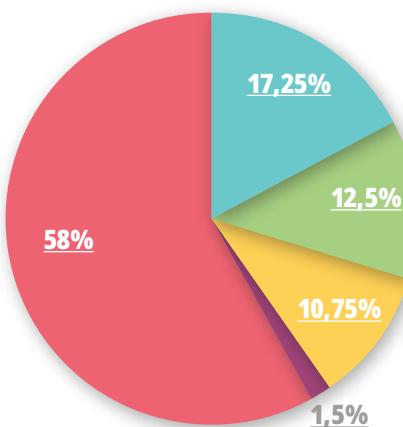
Enterprises respondents were also asked if sub-contracts, procurement orders or consulting contracts were used as a means to direct payments to public officials, employers or their relatives. 58% of respondents chose not to answer the question, or did not know the answer, while 17.3% said this happened very often, 1.5% said this happened all the time, 10.8% said this never happened, and 12.5% said this happened but not very often. **CHART 55**

The Moldova EESE Survey also investigated enterprises respondents' views on monopolistic market activity and anti-monopoly legislation. When asked about whether there were monopoly ac-



CHART 55: Are subcontracts, procurement orders or consulting contracts used as a means to direct corrupt payments to public officials, employers or their relatives?

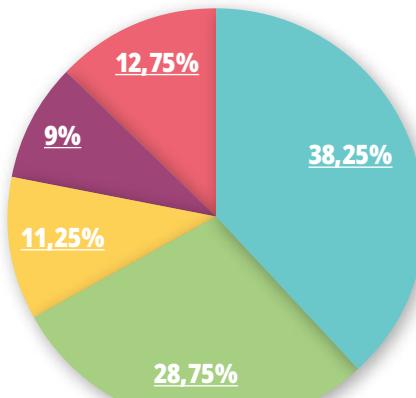
Very often Not very often Never
All the time DK-DA-N/A



Source: Moldova EESE Survey

CHART 56: In your activity sector, are there monopoly activities or monopolistic practices?

Don't exist Yes Could exist in the future
Existed in the past DK-DA-N/A



Source: Moldova EESE Survey

tivities or monopolistic practices survey respondents had divided opinions. 38.3% of respondents thought that monopolistic practices did not exist, while 28.8% thought they did, 11.3% thought they could exist in the future, and 9% thought they had existed in the past. **CHART 56**

When asked, how efficient was existing anti-monopoly legislation in combating or controlling monopoly or monopolistic activities, 48.5% of enterprises respondents either did not know or chose not to answer. 30.3% of respondents found existing legislation to be rather inefficient, 12.5% found it completely inefficient, 7.5% found it rather efficient, and only 1.3% found it to be very efficient. **CHART 57**

More than half of the surveyed enterprise representatives thought that the existing legal framework disadvantages SMEs compared to large enterprises. 41.8% found this to be rather the case, with 13.5 definitely stating that SMEs were disadvantaged; in comparison 20.8% thought that this

was rather not the case, and 8.5% stated that this was decidedly not the case. **CHART 58**

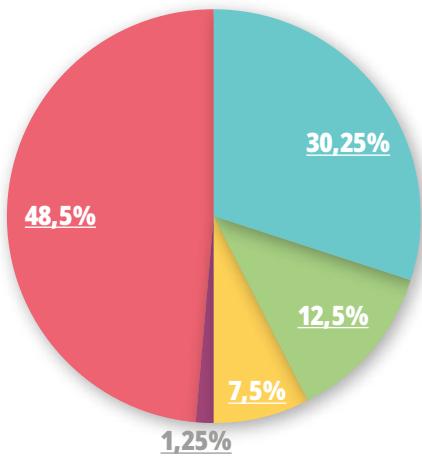
When asked about the extent to which they thought that government favoured foreign investors over domestic investors by offering better conditions and incentives, answers were somewhat mixed. 31% of enterprise respondents thought that the government occasionally favoured investors, 27% did not know or chose not to say, 20% thought that domestic and international investors were treated at par, 14.5% felt that foreign investors were always favoured while 7.5% felt that domestic investors were always favoured. **CHART 59**

All of the enterprises surveyed are in the formal sector, and the enterprise respondents were asked for their opinions about the informal economy. When asked about the extent to which they were affected by competition from informal businesses the larger proportion of respondents said that they were affected to some degree. 41.3%



CHART 57: If there is monopoly or monopolistic activities, how efficient is anti-monopoly legislation in combating or controlling these?

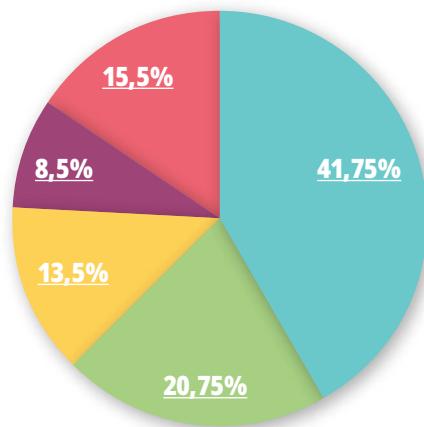
Rather inefficient Completely inefficient
Rather efficient Very efficient DK-DA-N/A



Source: Moldova ESEE Survey

CHART 58: Does the existing legal framework disadvantage SMEs compared to large enterprises?

No, it does not disadvantage Yes, it disadvantages
Rather not Rather yes DK-DA-N/A



Source: Moldova ESEE Survey

of respondents said that they were sometimes affected by competition from businesses in the informal economy, 6.8% said they were much affected and a further 8% said they were very much affected; in comparison 26.8% said they were not affected. **CHART 60**

Enterprises respondents were also asked if enterprises from their sector used suppliers or subcontractors from the informal economy. One-third of the respondents (33.8%) said that this never happened, while 27% said this happened rarely, 11.8% said this happened often, and 4% found it was always the case. When asked if competition from businesses in the informal sector had impeded their business growth, survey respondents had mixed responses again. Nearly one fifth, at 18% did not know or would not say. 31.8% of respondents thought that their growth was not significantly impeded by informal businesses, 25.3% of respondents said not at all, 18.5% said this had happened to a moderate degree, and 6.5% found

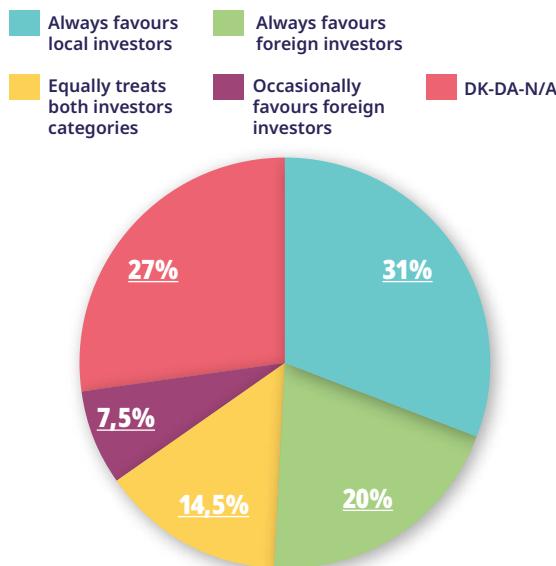
that their growth had been impeded very significantly. **CHART 61**

One of the indicators that measures competition is the Intensity of Local Competition Index. It is based on the survey data drawn from the following questions: "Competition in the local markets is (1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership)". The available data shows that in terms of the intensity of local competition, Moldova is at the lower end of the spectrum, although it has improved slightly, going from 4.7 in 2014 to 4.8 in 2017, and it performs similar to Albania and Romania yet below Malta which was the best performing in 2017 (with a score of 6.2), Estonia (at 5.8), and Slovenia (at 5.4). **FIGURE 14**

The Effectiveness of Anti-Monopoly Policies Index is based on annual survey data. The respondents are asked to rate the effectiveness of anti-monopoly policy in their country: "Antimonopoly policy in your country is (1 = lax and not effective at pro-

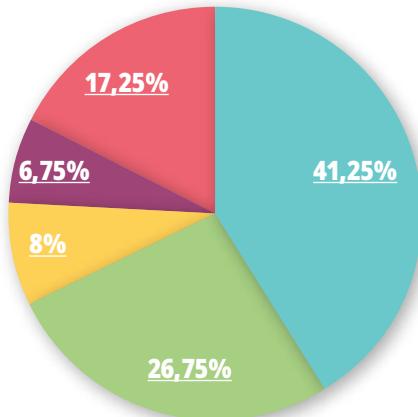


CHART 59: To what extent do you think that the government favours foreign investors over domestic investors by offering better conditions and incentives?



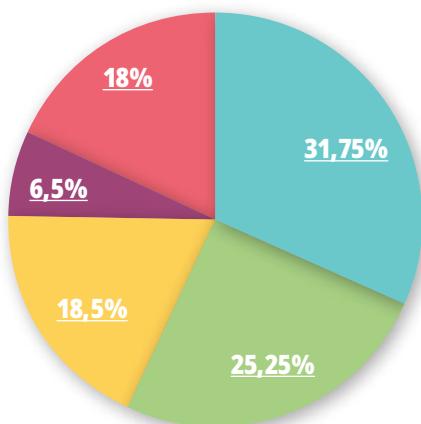
Source: Moldova EESE Survey

CHART 60: To what extent are you affected by competition from informal businesses?



Source: Moldova EESE Survey

CHART 61: Has competition from informal businesses impeded your business growth?

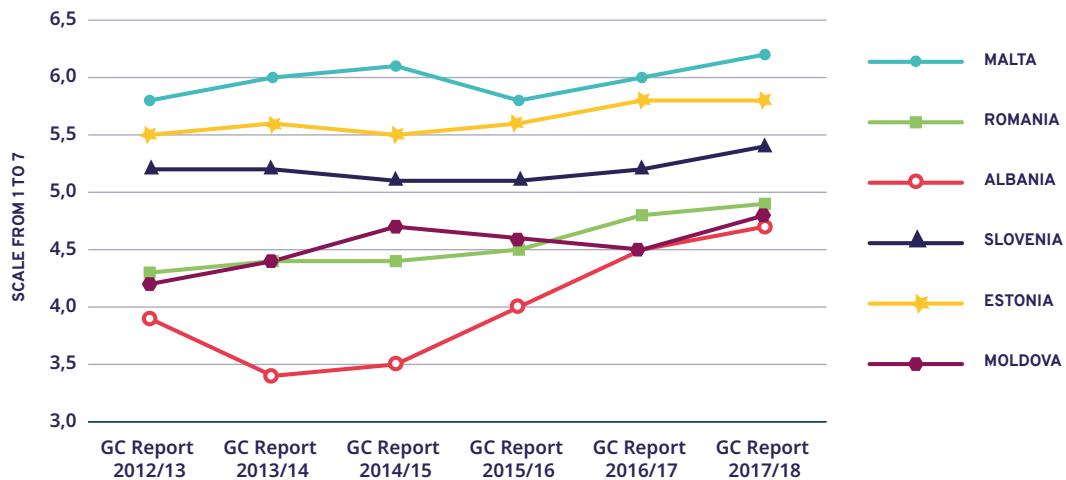


Source: Moldova EESE Survey

moting competition, 7= effective and promotes competition)". According to this indicator, Moldova, in 2017, lagged behind all the other countries at 2.8, having slipped from 3.2 in 2014. All the other countries had slightly declining values as well, except Estonia which stayed constant at 4.7 for the years described. In 2017 Malta had a value of 4.1, Slovenia was at a value of 3.8, Romania of 3.4, and Albania of 3.3. **FIGURE 15**

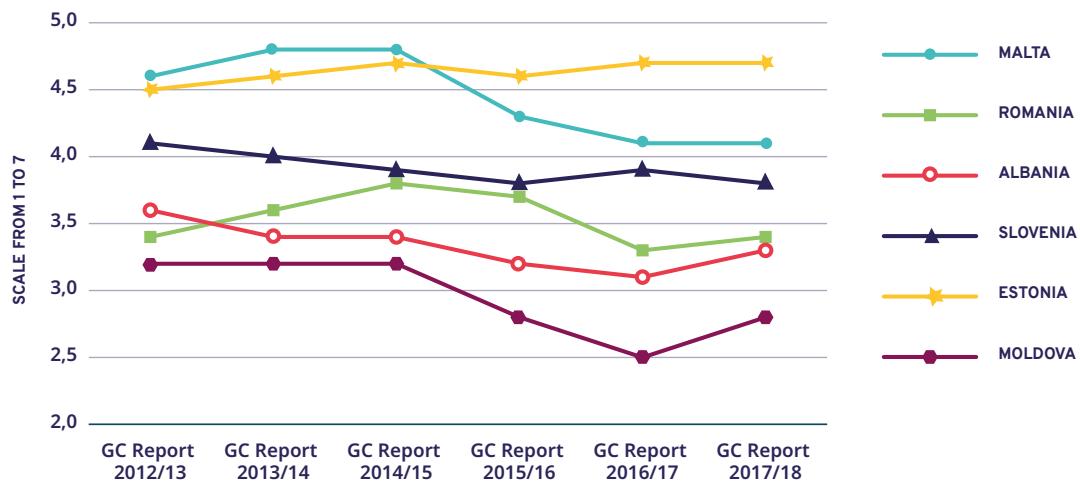


FIGURE 14: Intensity of Local Competition Index



Source: WEF: Global Competitiveness Reports

FIGURE 15: Effectiveness of Anti-Monopoly Policies



Source: WEF: Global Competitiveness Reports



KEY INDICATORS

Intensity of local competition index

Intensity of local competition index is based on survey data drawn from the following question: "Competition in the local markets is (1=limited in most industries and price-cutting is rare, 7=intense in most industries as market leadership)".

Source: World Economic Forum, The Global Competitiveness Report.

	GC Report 2014/15	GC Report 2015/16	GC Report 2016/17	GC Report 2017/18
Moldova	4.7	4.6	4.5	4.8
Estonia	5.5	5.6	5.8	5.8
Slovenia	5.1	5.1	5.2	5.4
Albania	3.5	4	4.5	4.7
Romania	4.4	4.5	4.8	4.9
Malta	6.1	5.8	6	6.2

Effectiveness of anti-monopoly policies

Effectiveness of anti-monopoly policy index is based on annual survey data. The respondents were asked to rate the effectiveness of anti-monopoly policy in their country: "Antimonopoly policy in your country is (1=lax and not effective at promoting competition, 7=effective and promotes competition)".

Source: World Economic Forum, The Global Competitiveness Report.

	GC Report 2014/15	GC Report 2015/16	GC Report 2016/17	GC Report 2017/18
Moldova	3.2	2.8	2.5	2.8
Estonia	4.7	4.6	4.7	4.7
Slovenia	3.9	3.8	3.9	3.8
Albania	3.4	3.2	3.1	3.3
Romania	3.8	3.7	3.3	3.4
Malta	4.8	4.3	4.1	4.1

Extent of market dominance index

Extent of market dominance index is based on annual survey data. The respondents were asked to rate the corporate activity in their country: "Corporate activity in your country is (1=dominated by a few business groups, 7=spread among many firms)".

Source: World Economic Forum, The Global Competitiveness Report.

	GC Report 2014/15	GC Report 2015/16	GC Report 2016/17	GC Report 2017/18
Moldova	3.1	3	2.9	3
Estonia	4.1	4.1	4.1	4.1
Slovenia	3.7	3.9	4.3	4.3
Albania	2.9	2.8	2.9	3.1
Romania	3.8	3.6	3.8	3.6
Malta	4.1	3.8	4	4.2

New business density

The number of newly registered limited liability companies per 1,000 working-age people (those ages 15-64) in that year.

Source: World Bank, World Development Indicators

	2011	2012	2013	2014	2015	2016
Moldova	1.75	1.73	1.75	1.92	1.80	1.75
Estonia	16.52	16.93	18.04	17.51	18.95	20.76
Slovenia	4.06	4.36	4.33	4.44	4.00	3.13
Albania	8.70	8.98	10.90	10.59	11.88	1.35
Romania	4.39	4.12	4.33	4.07	4.84	5.61
Malta	11.64	13.72	15.50	17.26	18.95	17.89



3.6 Information and communication technologies

With the continuing shift towards knowledge-based economies, the use of information and communication technologies is fundamental to the development of sustainable enterprises. Affordable access to information and communication technologies (ICTs) enhances competitiveness and innovation. Countries that want to increase their competitiveness on the market need to invest in ICT and foster an ICT culture both at company and household levels to increase the usage of ICT in all segments of the community. ICTs have great transformative potential when situated in the larger context of far reaching long term developmental aspirations.

Moldova has a number of key advantages in developing its ICT sector: labour costs are relatively low, and the existing infrastructure is of a generally high standard¹⁷¹. The level of ICT development in Moldova reflects strengths in education, and hard infrastructure¹⁷². Moldova has a dynamic and competitive telecommunication market with high internet access speeds, good mobile services accessibility, and strong technological development¹⁷³.

After independence Moldova has struggled with the legacy of a large bureaucracy, and corruption, but the spread of technology offers opportunities for empowering citizens for economic and social growth¹⁷⁴. The Ministry of Information Technology and Communications (MITC) is the government body responsible for the development, promotion and application of state policy in the field of information technology, information society and communications¹⁷⁵. A Digital Moldova 2020 Strategy was developed to guide the development of ICTs and ensure that their benefits accrued to the citizens of the country: it addresses the use of ICTs

in public, private, business environments and daily lives of citizens¹⁷⁶.

The Digital Moldova 2020 Strategy lays out seven main priorities to ensure qualitative economic development and poverty reduction, including aligning the education system to labour market needs to enhance labour productivity, improving the business climate by promoting competition policies, and so on¹⁷⁷. The strategy does not, however, clearly lay out the role of the private sector in achieving these goals by harnessing ICTs¹⁷⁸. An e-Government Centre was set up in August 2010 to help develop a digital transformation policy, a government IT strategy, and an open government data roadmap¹⁷⁹.

Activity in the electronic communications and information technology sectors is regulated by the National Regulatory Agency for Electronic Communications and Information Technology (ANRCETI), which also promotes competition and ensures fair prices and a certain quality of services¹⁸⁰. In April 2006 the Law on Access to Properties and Shared Use of Infrastructure Associated with Public Electronic Communications Networks was passed which empowered ANCRETI to ensure the shared use of infrastructure associated with electronic communications networks¹⁸¹.

The fixed broadband market and mobile broadband are among the fastest developing sectors in ICT in Moldova¹⁸². In contrast to increasing demands for more and faster internet access, fixed telephone penetration is decreasing¹⁸³. The telecommunications market was liberalized in 2004, and by 2014 there were 30 fixed services operators, 3 mobile services operators, 55 internet pro-

176 Ibid.

177 ITU, 2018.

178 Ibid.

179 World Bank, 29 July 2011.

180 ANRCETI, 13 July 2016.

181 Ibid.

182 ITU, 2017.

183 Ibid.

171 ITU, 2018.

172 Ibid.

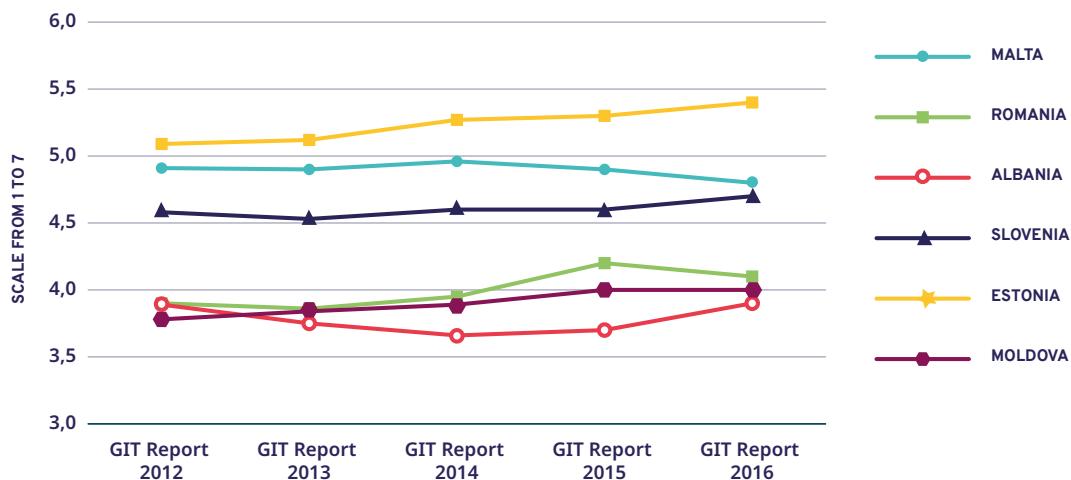
173 Ibid.

174 World Bank, 29 July 2011.

175 MITC, 2016.

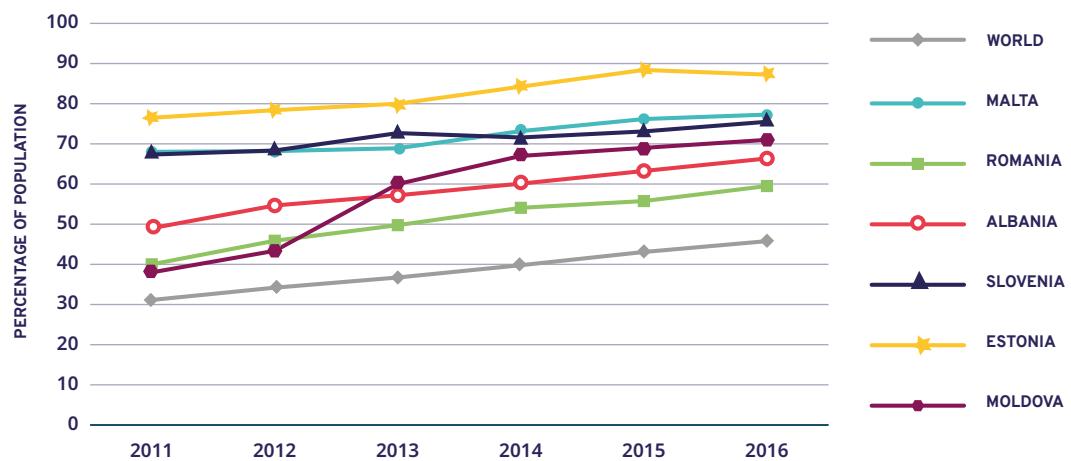


FIGURE 16: Networked Readiness Index



Source: WEF: Global Information Technology Reports

FIGURE 17: Internet Users (percentage of population)



Source: World Bank, World Development Indicators

viders, and 148 television providers¹⁸⁴. At present there are three mobile telecommunications oper-

ators in Moldova: Orange with 65.5% of the market, Moldcell with 30.2% of the market and Mold-

¹⁸⁴ Ibid.



telecom with 4.2% of the market¹⁸⁵. Legislation in this area is aligned with the legal framework of the EU. ICT policies are evolving, having previously focused largely on infrastructure requirements, newer pillars are based on innovation and entrepreneurship¹⁸⁶.

Several outsourcing companies are active in Chisinau, having spotted the potential of the Moldovan IT market¹⁸⁷. Moldova's low taxes, and good infrastructure, have led to it being considered a competitive alternative to classic outsourcing destinations, and its location is also favourable to the development of these kinds of services¹⁸⁸. The Government of Moldova has also been proactive about harnessing ICT-centric innovation as a support for the economy.

The Networked Readiness Index measures the degree to which developed and developing countries across the world leverage ICTs for enhanced competitiveness. In relation to the NRI there are no substantial differences between the compared countries. Moldova is close to the lower end of the range for the countries compared with an index value of 4 in 2016, having improved from 3.78 in 2012. In 2016 Estonia has the highest index at 5.4, followed by Malta at 4.8, Slovenia at 4.7, Romania at 4.1, and lastly Albania at 3.9. **FIGURE 16**

The most important indicators for development of ICT in a country are the number of internet users and the number of mobile and fixed-telephone subscriptions. Here Moldova is in the middle of the pack of the countries used for comparison. According to the World Bank Databank, in 2016 Moldova's internet users comprised of 71% of the population, which almost double the figure of 38% in 2011. In 2016 Estonia had the largest percentage with 87.24%, followed by Malta at 77.29%, Slovenia with 75.50%, Albania at 66.36% and Romania with 59.50%. Based on World Bank data Moldova's density of mobile-cellular telephone subscriptions is

lower than of comparison countries, at 93.32% in 2016, while all the other countries are in three digits, Estonia having the highest figure at 144.61% in 2016. The number of fixed-telephone subscribers in Moldova has decreased slightly since 2011, and was at 28.85% in 2016. **FIGURE 17**

¹⁸⁵ Ibid.

¹⁸⁶ Ibid.

¹⁸⁷ ZDNet, 29 April 2015.

¹⁸⁸ ZDNet, 29 April 2015.



KEY INDICATORS

ICT Development Index (IDI)

IDI compares developments in information and communication technologies (ICT) in 154 countries over a five-year period from 2002 to 2007. The Index combines 11 indicators into a single measure that can be used as a benchmarking tool globally, regionally and at the country level. These are related to ICT access, use and skills, such as households with a computer the number of Internet users; and literacy levels.

Scale from 1 to 10, with lower scores reflecting lower development levels.

Source: International Telecommunication Union

	2012	2013	2015	2016	2017
Moldova	4.74	5.72	5.81	6.21	6.45
Estonia	7.28	7.68	8.05	8.16	8.14
Slovenia	6.76	7.13	7.23	7.2	7.38
Albania	4.11	4.72	4.73	4.9	4.14
Romania	5.35	5.83	6.11	6.23	6.48
Malta	7.25	7.25	7.52	7.65	7.86

Networked Readiness Index

The NRI measures the degree to which developed and developing countries across the world leverage information and communication technologies (ICT) for enhanced competitiveness. The Index comprises three sub-indexes that measure the environment for ICT, together with the main stakeholders' readiness and usage, with a total of nine pillars and 71 variables.

Scale of 1 to 7, with higher scores reflecting a better readiness to utilize the opportunities created by ICT.

Source: World Economic Forum, Global Information Technology Reports

	GIT Report 2012	GIT Report 2013	GIT Report 2014	GIT Report 2015	GIT Report 2016
Moldova	3.78	3.84	3.89	4	4
Estonia	5.09	5.12	5.27	5.3	5.4
Slovenia	4.58	4.53	4.6	4.6	4.7
Albania	3.89	3.75	3.66	3.7	3.9
Romania	3.9	3.86	3.95	4.2	4.1
Malta	4.91	4.9	4.96	4.9	4.8

Extent of market dominance index

Extent of market dominance index is based on annual survey data. The respondents were asked to rate the corporate activity in their country: "Corporate activity in your country is (1=dominated by a few business groups, 7=spread among many firms)".

Source: World Economic Forum, The Global Competitiveness Report.

	2011	2012	2013	2014	2015	2016
Moldova	38.00	43.37	60.00	67.00	69.00	71.00
Estonia	76.50	78.39	80.00	84.24	88.41	87.24
Slovenia	67.34	68.35	72.68	71.59	73.10	75.50
Albania	49.00	54.66	57.20	60.10	63.25	66.36
Romania	40.01	45.88	49.76	54.08	55.76	59.50
Malta	68.02	68.20	68.91	73.17	76.18	77.29

Fixed-telephone subscriptions (per 100 inhabitants)

Fixed lines are telephone mainlines connecting a customer's equipment to the public switched telephone network.

Source: World Bank, World Development Indicators

	2011	2012	2013	2014	2015	2016
Moldova	28.94	29.60	30.00	29.93	29.57	28.85
Estonia	35.52	33.83	32.27	30.89	29.47	28.24
Slovenia	42.92	40.54	38.64	37.17	36.30	35.20
Albania	11.58	10.68	9.63	8.07	7.76	8.50
Romania	23.06	23.05	23.52	22.83	21.48	20.78
Malta	55.50	54.60	54.66	54.13	53.84	54.59



**Mobile-cellular telephone subscriptions
(per 100 inhabitants)**

Mobile phone subscribers refer to users of portable telephones subscribing to an automatic public mobile telephone service using cellular technology that provides access to the public switched telephone network.

Source: World Bank, World Development Indicators

	2011	2012	2013	2014	2015	2016
Moldova	78.91	87.99	90.79	91.85	91.32	93.32
Estonia	135.95	150.93	145.84	143.93	144.72	144.61
Slovenia	105.61	108.77	110.52	112.34	113.45	114.82
Albania	105.92	119.86	126.28	115.03	116.34	115.15
Romania	115.41	113.23	114.16	114.76	116.32	115.78
Malta	124.71	126.48	131.52	128.35	122.58	123.94

Fixed (wired)-broadband subscriptions (per 100 inhabitants)

Broadband subscribers are the total number of broadband subscribers with a digital subscriber line, cable modem, or other high-speed technologies.

Source: World Bank, World Development Indicators

	2011	2012	2013	2014	2015	2016
Moldova	8.74	10.27	11.53	12.51	13.14	13.73
Estonia	26.27	26.38	27.31	28.14	29.20	30.22
Slovenia	24.08	24.72	25.39	26.84	27.19	28.31
Albania	4.38	5.48	6.25	7.12	8.31	9.10
Romania	16.18	17.56	18.89	20.11	21.44	22.49
Malta	30.76	32.26	33.79	35.61	38.17	39.89



3.7 Access to financial services

One of the key factors for the development of an economy and its companies is the existence of relevant and affordable financial services. This is of special importance for all kinds of companies, regardless of their size or the sector they operate in. The financial sector is important for the promotion and encouragement of new companies but also to support existing companies to increase production and exports of their products and services. Sources of financing are often one of the main barriers for existing and potential entrepreneurs in most countries. A good financial system includes not only affordable interest rates, but also flexible ways of gauging collateral among others. Promoting financial inclusion in Moldova would grow the financial sector, and drive inclusive economic growth.

Financial instruments of different types are still evolving, and the securities market in Moldova is underdeveloped¹⁸⁹. The National Commission for Financial Markets (NCFM) is tasked with exploring ways to bolster capital markets¹⁹⁰. The framework for capital markets and portfolio investment in Moldova is provided by governmental decisions, the National Bank of Moldova (NBM), and Stock Exchange regulations¹⁹¹. In 2007 regulatory reform was undertaken in order to attempt to strengthen to non-bank financial market; since 2008 financial and capital markets are regulated by the NBM and the National Commission for Financial Markets¹⁹².

Credit policy is regulated for the financial system through the NBM, auctions through commercial banks, mandatory reserves, open market operations, credit secured through collateral and T-bill auctions on the primary market¹⁹³. Local commercial banks provide mostly short-term, high-interest loans and tend to require significant collateral,

which reflects the high perceived economic risk in Moldova¹⁹⁴.

Lending activity was affected by the banking crisis of late 2014, seeing a sharp drop in activity in 2015, which severely weakened the banking system overall. Following the disappearance of about USD 1 billion (which is about one eighth of the country's GDP) from three banks¹⁹⁵, the NBM carried out extreme monetary tightening which led to high interest rates on government bonds and in commercial lending¹⁹⁶. In the aftermath of the banking scandal three of the largest banks were liquidated, and a bailout of about USD 870 million was required to rescue depositors, which led to a rapid depreciation of the currency¹⁹⁷.

The scale of the fraud severely challenged the system. Trust in the banking and political systems was further eroded¹⁹⁸. The banking fraud led to the EU, the World Bank and the IMF temporarily freezing aid to Moldova, which may have helped to push much-needed banking sector reforms through¹⁹⁹. In 2016 a three year loan was granted by the IMF, to help stabilise the banking sector, and enable an ambitious reform programme²⁰⁰.

The liquidation of the three banks involved in the crisis, Unibank, Banca Sociala and Banca de Economii, which represented 32% of the market in terms of total sector assets and 24% of portfolio assets, has left eleven other banks operating in Moldova²⁰¹. The three largest remaining banks are Victoriabank, Moldova Agroindbank (MAIB), and Moldinconbank, which today account for about 65% of total banking sector assets, and have been placed under special supervision by the BNM due to concerns over corporate governance²⁰².

¹⁸⁹ Ibid.

¹⁹⁰ The Economist, 16 February 2017.

¹⁹¹ U.S. Department of State, July 2018.

¹⁹² The Banker, 3 April 2018.

¹⁹³ Ibid.

¹⁹⁴ The Banker, 3 April 2018.

¹⁹⁵ Ibid.

¹⁹⁶ Ibid.

¹⁹⁷ Ibid.

¹⁹⁸ Ibid.

¹⁹⁹ Ibid.

²⁰⁰ Ibid.

²⁰¹ Ibid.

²⁰² Ibid.



In 2017 new regulations on internal governance of banking institutions and risk management came into force, while a new law on banking activity based on Basel III principles came into force in early 2018²⁰³. These measures are aimed at bringing Moldova's banking sector more in line with EU requirements²⁰⁴.

Generally, credit activity is mostly focused on large corporations; banks have few clients from small and medium-sized enterprises²⁰⁵. There are significant pools of savings, due to the remittances of emigrants, but credit activity remains low; and one of the stated aims of the banking reform undertaken in the last few years is to address this by reorienting banks towards their primary role which is to convert the large deposit base into healthy credits to the economy²⁰⁶.

Recent years have seen a growth in microlending, and a new law on the non-bank financial sector came into force in July 2018²⁰⁷. One of the stated goals of the DCFTA is to strengthen economic development by providing financial and technical support to SMEs²⁰⁸. As part of this the European Investment Bank (EIB) has introduced initiatives to enable banks to take on more risk and serve traditionally underserved segments of the economy²⁰⁹. Direct support to SMEs, by providing finance, training, coaching and advice, and import and export support is part of this initiative, as well as support to business support organizations, and support to national authorities²¹⁰.

Enterprises respondents were asked for their opinion on whether financial sector policies were conducive to enterprise growth. The largest proportion (24.8%) thought that this were to some extent the case. The next largest proportion, at

21.3% were those who did not know or would not say, 19.5%, nearly one fifth, thought that they were not conducive, while 12% thought they were conducive, and 1% thought they were very conducive. This does not paint a particularly positive picture of the perception of financial sector policies, as pertaining to the promotion of business growth. **CHART 62**

When asked about how easy it was for a formal small business to obtain the various sources of finance, the enterprises respondents mentioned that business loans were the most difficult to obtain, followed by loan guarantees, while equity capital and lease financing were easier to obtain. A full ranking of the difficulty of different sources of finance is given in the table below. **CHART 63**

Of different groups seeking access to formal finance, many enterprises respondents felt that there was no difference between men and women, or older or younger applicants, at 34.8% selecting no difference. In comparison 32% though the youth were disadvantaged when seeking formal finance, 5.8% thought young women were disadvantaged, while 3% thought this was worst for young men, 2.3% thought this was worst for men, 3.8 thought it was worst for women and 18.5% did not know or wouldn't say. **CHART 64**

When asked about who they were most likely to approach for funding for a new business idea enterprise respondents overwhelmingly named their own savings (59%) as the primary source, followed by family savings (21%), and the bank (19.5). Other potential sources were family and friends (16%), informal savings and loans groups (4%), Money lenders (3.3%), the government (3.3%) and venture capital (1.5%). **CHART 65**

Enterprise respondents were asked to rank problems that entrepreneurs faced when applying for financing. The top three hurdles mentioned were insufficient collateral, high loan costs and the lack of guarantors. A full list of concerns is given in the chart below. **CHART 66**

Enterprise respondents were asked about the confidence they had in current bankruptcy legislation and its application. About half of respond-

²⁰³ Ibid.

²⁰⁴ BNM, 2017.

²⁰⁵ The Banker, 3 April 2018.

²⁰⁶ IMF, 6 September 2017.

²⁰⁷ U.S. Department of State, July 2018.

²⁰⁸ EU4Business, 4 July 2017.

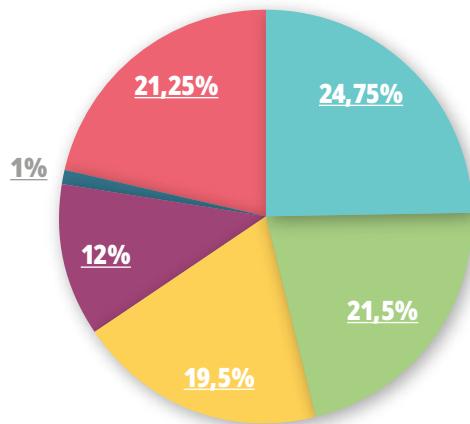
²⁰⁹ Ibid.

²¹⁰ Ibid.



CHART 62: Are financial sector policies conducive to enterprise growth?

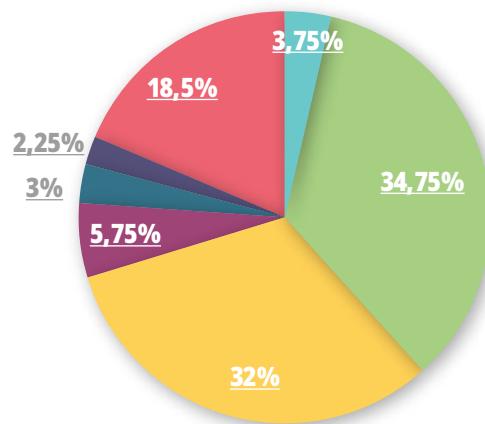
To some extent Hardly conducive No
Conducive Yes, very conducive DK-DA-N/A



Source: Moldova EESE Survey

CHART 64: Which group is less likely to have access to formal finance?

Women No difference Youth Young women
Young men Men DK-DA-N/A



Source: Moldova EESE Survey

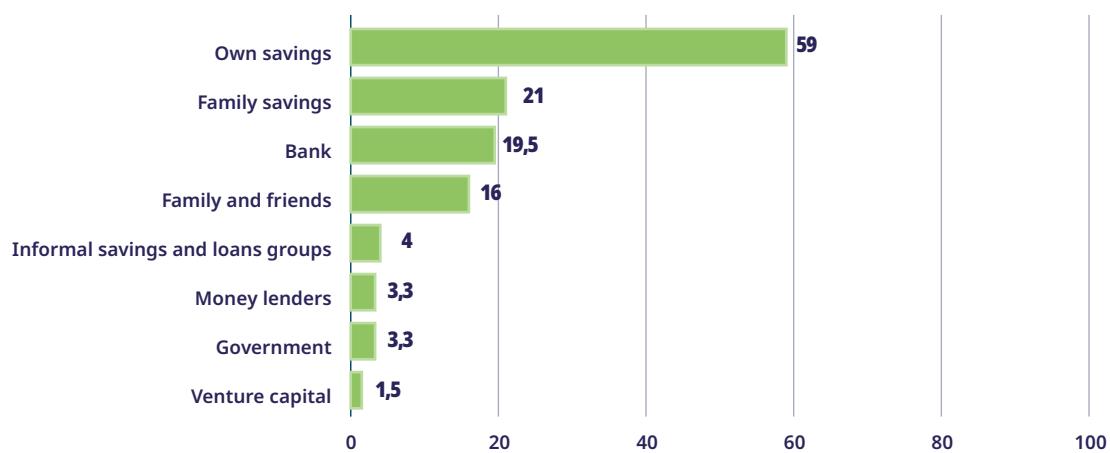
CHART 63: How easy is it for a formal small business to obtain the following sources of finance?



Source: Moldova EESE Survey

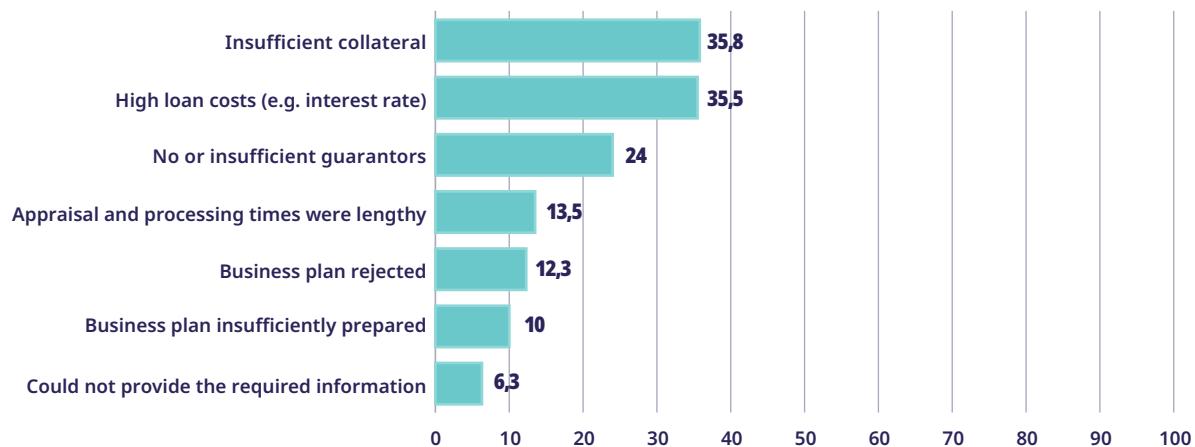


CHART 65: If you were to find a loan for your new business idea, who would you approach to get the funding from first, second and third from the choices below?



Source: Moldova ESE Survey

CHART 66: What are the three biggest problems for entrepreneurs when applying for financing?

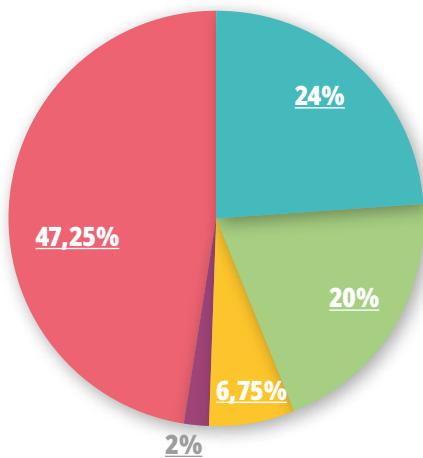


Source: Moldova ESE Survey



CHART 67: To what extent do you have confidence in the current bankruptcy legislation and its application?

█ Rather not █ Rather, yes █ Not at all
█ Yes, entirely █ DK-DA-N/A



Source: Moldova ESEE Survey

ents (47.3%) elected not to answer, or did not know; 24% did not have much confidence, 20% had some confidence, while 6.8% had no confidence at all and 2% had full confidence in the current legislation and its application with respect to bankruptcy. **CHART 67**

Enterprise respondents were also asked about the extent to which they thought bankruptcy regulation was adequately flexible in enabling entrepreneurs to have a “second chance” (i.e. starting another business) and coming out of a bankruptcy. In this case 47.5% percent of respondents did not answer, 23.5% thought the regulation was not rather flexible and enabling, 20.3% found that it was indeed rather flexible in enabling a second chance to entrepreneurs.

The indicator of Domestic Credit to Private Sector (% of GDP) refers to financial resources provided to the private sector, such as loans, purchases of non-equity securities, and trade credits and other accounts receivable that establish a claim for

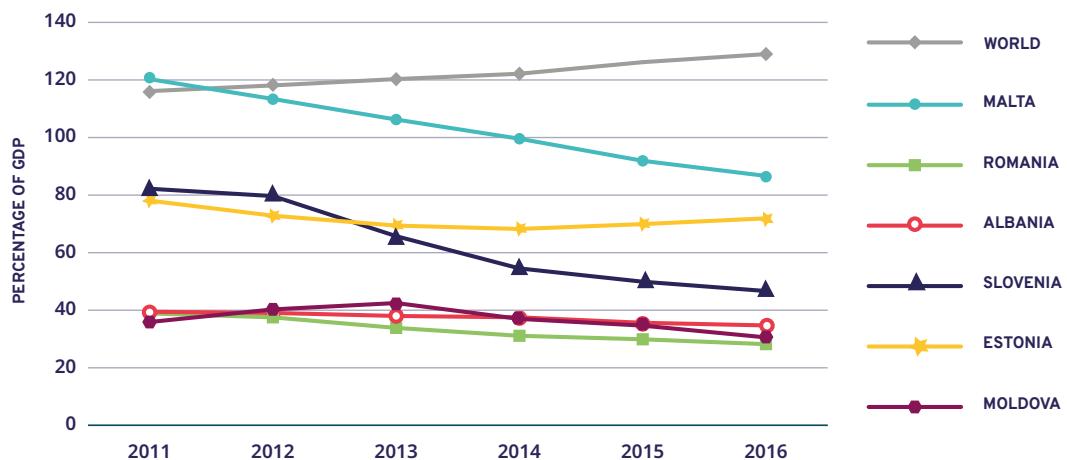
repayment. According to the latest available data, the share of domestic credit to the private sector as a percentage of GDP is the lowest in Moldova, except for Romania, which is even lower. In 2017 Moldova was at 27.08%, Romania was at 26.45%, and Estonia had the highest figure at 64.70%. **FIGURE 18**

The Interest Rate Spread (lending rate minus deposit rate) is the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time, or savings deposits. In this respect, Moldova outperforms the other countries for which information is available. The value of this indicator for Moldova was 3.55% in 2016, having dropped from 5.79% in 2012. In 2016 Albania was at 8.82% and Romania was at 4.60%. Data is not available on Estonia, Slovenia and Malta. **FIGURE 19**

The Credit Information Index measures rules affecting the scope, accessibility, and quality of credit information available through public or private credit registries. The index ranges from 0 to 8, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions. Moldova scored a 6 in 2017, as did Slovenia and Albania. Malta scored a 4, which was the lowest, while Estonia and Romania were at 7 in the same year.



FIGURE 18: Domestic Credit to Private Sector



Source: World Bank: World Development Indicators

FIGURE 19: Interest Rate Spread



Source: World Bank: World Development Indicators



KEY INDICATORS

Domestic Credit to Private Sector (% of GDP)

Domestic credit to private sector refers to financial resources provided to the private sector, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries these claims include credit to public enterprises.

Source: World Bank, World Development Indicators

	2011	2012	2013	2014	2015	2016
Moldova	35.90	40.29	42.50	36.99	34.65	30.56
Estonia	78.07	72.85	69.41	68.23	69.92	71.93
Slovenia	82.21	79.66	65.73	54.53	49.91	46.67
Albania	39.46	39.06	38.01	37.53	35.64	34.72
Romania	38.90	37.52	33.86	31.12	29.90	28.21
Malta	120.28	113.40	106.25	99.58	91.91	86.66

Credit Depth of Information Index

Credit information index measures rules affecting the scope, accessibility, and quality of credit information available through public or private credit registries. The index ranges from 0 to 8, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions.

0=less information to 8=more information.

Source: World Bank, Doing Business Project

	2014	2015	2016	2017
Moldova	6	6	6	6
Estonia	7	7	7	7
Slovenia	4	4	4	6
Albania	6	6	6	6
Romania	7	7	7	7
Malta	0	0	4	4

Interest rate spread

Interest rate spread (lending rate minus deposit rate) is the interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time, or savings deposits.

Source: World Bank, World Development Indicators

	2012	2013	2014	2015	2016
Moldova	5.79	5.07	5.30	2.18	3.55
Estonia					
Slovenia					
Albania	5.46	5.66	6.74	7.33	8.82
Romania	5.82	5.97	5.45	4.88	4.60
Malta					



3.8 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 play a pivotal role. All of these factors directly influence businesses in every country. Poor connectivity inhibits economic growth by increasing transport costs, limiting access to jobs and social services, hindering trade with neighbours, and undermining the development of competitive industries.

Improvements to the road network, and railroads are required to improve the growth of sustainable enterprises. Moldova's railroads have not seen significant upgradation efforts since they were built in the Soviet era; they have not been electrified, and have limited speed and load weights, particularly during summertime due to thermal deformation²¹¹. In 2018 the state railway company (CFM), acquired loans from the EU to rehabilitate part of the railway infrastructure.

Moldova's population is heavily dependent on agriculture, and this requires good land transport infrastructure. The deteriorating road network limits the country's ability to seize new trade opportunities²¹². Between 2008 and 2017 the Government of Moldova improved the country road network as part of the Land Transport Infrastructure Strategy, and funds from the EU have been earmarked to continue the work²¹³. There are a total of 9,352 kilometres of roadways, of which 8,835 are paved²¹⁴. Improvements to the road network are required to connect Moldova's rural areas, particularly as winters have become warmer and wetter, leading to muddy and impassable roads²¹⁵.

Most of Moldova's trade goods are transported by road²¹⁶. With trade to overseas destinations increasing, access to regional ports is becoming more important²¹⁷. There are 558km of waterways in public use²¹⁸, but the majority of Moldova's container trade is handled by the Ukrainian ports of Odessa and Chornomorsk²¹⁹. Road connections to these need improvement, as well as to the Romanian port of Constanta, which is further away, but more efficient than its Ukrainian competitors²²⁰. Moldova's primary river port of Giurgiulesti, handles moderate amounts of container traffic, and has the capacity to handle more, but access by road and rail need improvements²²¹.

Chisinau accounts for 23% of the population of Moldova; and though demographic decline and emigration have slowed the process of urbanization, internal migration from the regions to Chisinau continues²²². Infrastructure and services are less well developed in rural areas. Public services are better delivered in urban areas, and a history of urban planning and management in Moldova has meant that even though there are shortcomings and disparities in urban settlements, urban areas tend to be well administered²²³.

Until recently Moldova was almost completely dependent on Russia for energy; relying on its Transnistria-based Russian owned electricity provider for this key utility²²⁴. In April 2017 the Ministry of Economy announced the signature of a new contract for electricity supply with a Ukrainian provider²²⁵. 98% of energy is imported²²⁶. The only route for imports of energy from Russia and Ukraine is

216 USAID, 2018.

217 Ibid.

218 CIA World Factbook, 2018.

219 USAID, 2018.

220 Ibid.

221 Ibid.

222 UNHabitat, 2016.

223 UNHabitat, 2016.

224 Carnegie Endowment for International Peace, 23 May 2017.

225 Moldpres, 1 April 2017.

226 New Eastern Europe, 14 March 2018.

211 The Borgen Project, 21 January 2018.

212 European Commission, 2018.

213 Ibid.

214 CIA World Factbook, 2018.

215 The Borgen Project, 21 January 2018.



through Transnistria, which makes Moldova highly dependent on good relations with Moscow and Tiraspol²²⁷. There is no direct pipeline connecting Chisinau and Romania, and gas infrastructure is comparatively underdeveloped, with inadequate storage facilities, which is a concern since the energy mix favours natural gas²²⁸.

In order to diversify energy supplies the Government of Moldova has started developing alternate routes, and suppliers. In 2016 funding from the EU was secured to link Moldova and Romania by gas pipeline, and in 2018 plans to increase the investment to complete the extension to Chisinau were announced by a Romanian company²²⁹. The Government of Moldova has allowed for a US based oil and gas exploration company to develop hydrocarbon resources in the Dobrogea Basin²³⁰. The success of these diversification efforts rests a great deal on political stability in Moldova, but political developments in neighbouring countries also complicate the transformation of Moldova's energy market²³¹.

When asked to assess the quality of the infrastructure, the enterprises representatives mentioned that the most developed infrastructure belonged to telecommunications (22.5% - very good and 51.3% - good) and that among those which are lacking are roads and transport (39% - poorly developed and 23.3% - very poorly developed). The largest proportion of respondents found water and sewage to be satisfactory, electricity supply was generally felt to be good or satisfactory, as were airport facilities. **CHART 68**

Enterprise survey respondents were asked to estimate the costs incurred by the company due to underdeveloped or inadequate physical infrastructure. 44% of respondents said they incurred big costs due to inadequate physical infrastructure, while 24.3% found the costs to be small,

12% found the costs to be negligible, while 11.8% found them to be very big. **CHART 69**

The survey specifically addressed public investments made in the last few years on physical infrastructure, and whether these had had a beneficial impact on enterprises. Only 3% of enterprise respondents thought the spending on physical infrastructure had a very beneficial impact, with 10% saying it had a large impact, 41% saying it had a small impact, and 34.8% finding that it had no impact at all. **CHART 70**

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. Moldova and Romania have the lowest values of the countries used for comparison at 3.3 in 2017. Malta is next lowest at 4.2, then Albania at 4.3, Slovenia at 4.6 and Estonia, highest at 5.4. Moldova and Romania have both seen their index value fall from 3.8 in 2014. **FIGURE 20**

The Quality of Port Infrastructure Index reflects the level of development of port facilities and inland waterways on a range from 1 to 7 with higher values indicating better development. On this indicator, as well, Moldova performs most poorly of the countries used for comparison. In 2013 the value was 2.6 and in 2014 this had slid to 2.4. Estonia had the highest value in 2017 at 5.6, followed by Malta at 5.3, Slovenia at 5, Albania at 4.1 and Romania at 3.5. **FIGURE 21**

²²⁷ Ibid.

²²⁸ Ibid.

²²⁹ Ibid.

²³⁰ Ibid.

²³¹ Ibid.



CHART 68: How would you assess the quality of infrastructure in Moldova (from the point of view of enabling businesses to operate effectively and efficiently)?



Source: Moldova EESE Survey

CHART 69: How large are the costs incurred by your company because of the underdeveloped or inadequate physical infrastructure?



Source: Moldova EESE Survey

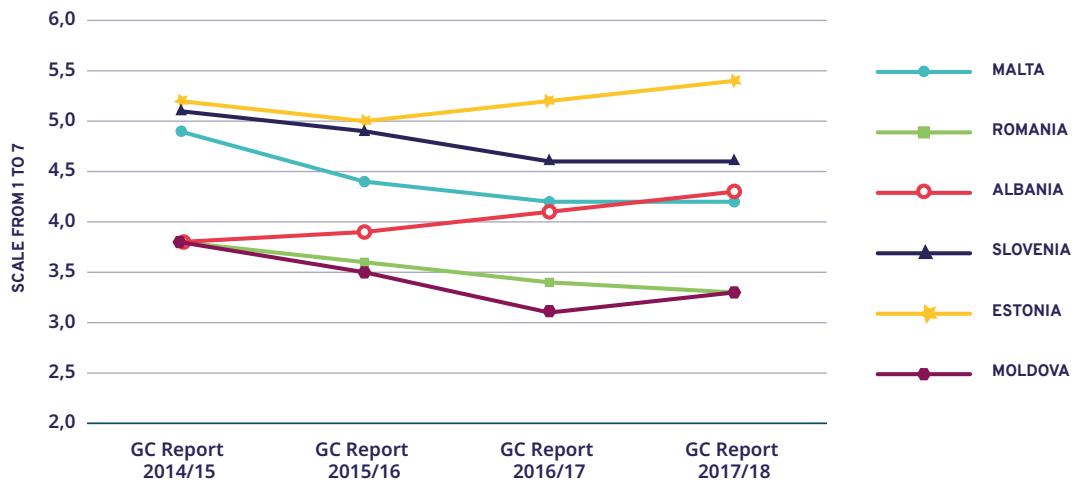
CHART 70: Did public investments made in the last year on physical infrastructure have a beneficial impact on your enterprise?



Source: Moldova EESE Survey

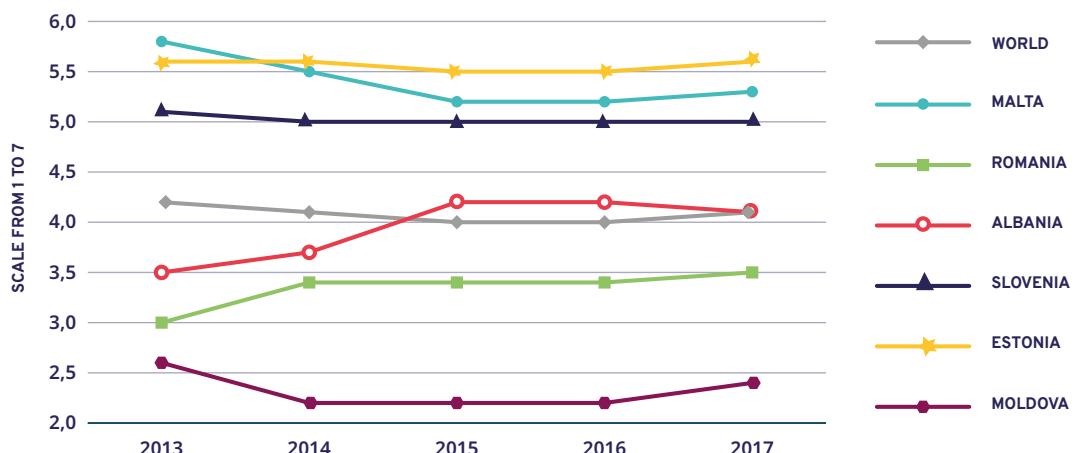


FIGURE 20: Quality of Overall Infrastructure Index



Source: WEF Global Competitiveness Reports

FIGURE 21: Quality of Port Infrastructure Index



Source: WEF: Global Competitiveness Reports



KEY INDICATORS

Electric power consumption (kWh per capita)

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.

Source: World Bank, World Development Indicators

	2009	2010	2011	2012	2013	2014
Moldova	1740.80	1722.89	1470.23	1514.53	1352.79	1386.23
Estonia	5975.95	6506.32	6314.41	6689.37	6664.66	6732.37
Slovenia	6104.42	6510.84	6753.07	6718.98	6779.28	6728.00
Albania	1835.68	1943.34	2205.70	2118.33	2533.25	2309.37
Romania	2390.57	2550.86	2639.03	2604.24	2494.53	2584.41
Malta	4434.19	4767.10	4867.06	5008.88	4945.98	5007.44

Improved water source (% of population with access)

Access to an improved water source refers to the percentage of the population with reasonable access to an adequate amount of water from an improved source, such as a household connection, public standpipe, borehole, protected well or spring, and rainwater collection. Unimproved sources include vendors, tanker trucks, and unprotected wells and springs. Reasonable access is defined as the availability of at least 20 litres a person a day from a source within one kilometre of the dwelling.

Source: World Bank, World Development Indicators

	2010	2011	2012	2013	2014	2015
Moldova	60.11	62.55	65.00	67.47	69.95	69.96
Estonia	89.06	87.59	86.13	84.66	83.19	81.69
Slovenia	90.39	92.01	93.63	95.25	96.87	98.03
Albania	61.66	63.47	65.28	67.07	68.86	68.87
Romania	92.57	91.37	90.18	88.98	87.78	87.78
Malta	99.96	99.95	99.95	99.95	99.95	99.94

Quality of Overall Infrastructure Index

Survey data: "General infrastructure in your country is: 1 = underdeveloped, 7= as extensive and efficient as the world's best".

Source: World Economic Forum, The Global Competitiveness Report.

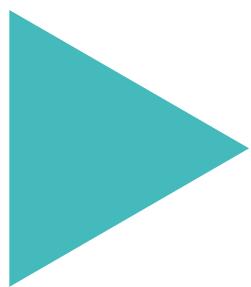
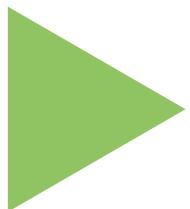
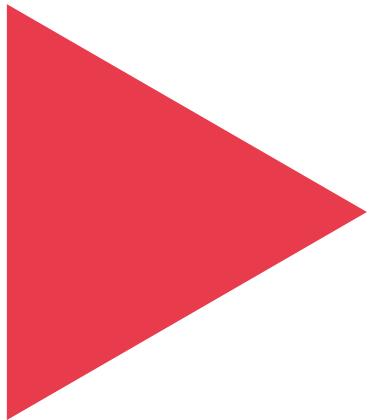
	GC Report 2014/15	GC Report 2015/16	GC Report 2016/17	GC Report 2017/18
Moldova	3.8	3.5	3.1	3.3
Estonia	5.2	5	5.2	5.4
Slovenia	5.1	4.9	4.6	4.6
Albania	3.8	3.9	4.1	4.3
Romania	3.8	3.6	3.4	3.3
Malta	4.9	4.4	4.2	4.2

Quality of Port Infrastructure Index

Survey data: "Port facilities and inland waterways in your country are: 1=underdeveloped, 7= as developed as the world's best. For landlocked countries this measures the ease of access to port facilities and inland waterways".

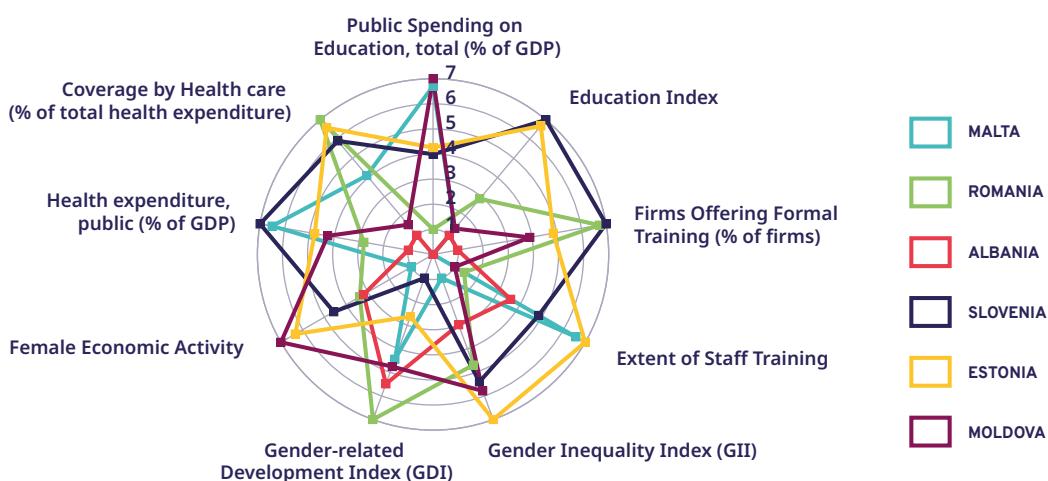
Source: World Economic Forum, The Global Competitiveness Report.

	2013	2014	2015	2016	2017
Moldova	2.6	2.2	2.2	2.2	2.4
Estonia	5.6	5.6	5.5	5.5	5.6
Slovenia	5.1	5	5.0	5	5
Albania	3.5	3.7	4.2	4.2	4.1
Romania	3	3.4	3.4	3.4	3.5
Malta	5.8	5.5	5.2	5.2	5.3



4. Social Elements

Indicators assessing social elements of an enabling environment for sustainable enterprises*



* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- The long and medium term policy framework for the development of SMEs in Moldova is provided by the Small and Medium Enterprise Sector Development Strategy for 2012-2020.
- Training programmes to improve investment readiness and financial literacy of SMEs have been prepared but these initiatives tend to be fragmented and dependent on donor funding.
- A majority of enterprises respondents surveyed thought that investment in human resource development by companies was low.
- 56.8% of enterprises survey respondents thought that there were significant skills deficits when asked about the availability of skilled workforce in the country, and the quality of the educational system.
- The demand for secondary and post-secondary vocational technical education is still quite low



as the system is not well aligned with the needs of the market.

- 50.5% of enterprises survey respondents felt that in some areas tertiary and vocational education did not meet needs.
- Public investment in health is relatively high, as it is for education, but possibly intra-sector efficiency needs to improve to allow the country to achieve better outcomes.
- Moldova has a legal and institutional framework to promote decent working hours, and to legislate the duration of annual paid leave to comply with international standards.
- Enterprises survey respondents largely thought that legal health and security standards at the work place in Moldova were adequate and practical.
- There is a reported gender gap, a lack of access to affordable child-care facilities, narrow property rights for women, reduced access to financial resources, and prevailing patriarchal attitudes socially, which combine to reduce employment opportunities for women.
- Given the context of an aging population, and slower economic growth Moldova faces a serious challenge in terms of the maintenance of a well-functioning social protection system that ensures basic health care and income security for all.

4.1 Entrepreneurial culture

One of the most important pillars for the development of society is entrepreneurial culture. Entrepreneurs make significant contributions to GDP and in many countries represent the main engine for global economic development. Micro, small and medium sized enterprises have been recognised as an engine of economic growth, and of promoting inclusive growth, which makes them key to development. Particularly in countries like Moldova, it is important to seek opportunities for local production and innovation.

The long and medium term policy framework for the development of SMEs in Moldova is provided by the Small and Medium Enterprise Sector Development Strategy for 2012-2020, and the action plan for implementation overseen by the Ministry of Economy and Infrastructure (MEI)²³². The SME strategy recognises the need to shift from a consumption-based model of economic development to an export-oriented paradigm driven by investments and innovations²³³.

In recent years SME growth in Moldova has been affected by the recession in Russia and the banking crisis of 2014. Financial sector turmoil has also complicated the development of SME-specific financial products which would encourage longer grace periods, and promote the use of credit guarantees²³⁴. Training programmes to improve investment readiness and financial literacy of SMEs have been prepared but these initiatives tend to be fragmented and dependent on donor funding²³⁵.

SMEs are the backbone of the Moldovan economy; with approximately 130,000 registered enterprises, according to information from the National Bureau of Statistics, of which about 52,300 are actually active. SMEs represented approximately

²³² MEI, 2018.

²³³ Ibid.

²³⁴ OECD, 23 November 2016.

²³⁵ Ibid.



97.2% of all enterprises in the country in 2015²³⁶. The number of active SMEs, it is suggested, is closer to an estimated 35,000, with about a third of registered SMEs being inactive²³⁷. 39.8% of SMEs are in wholesale and retail trade, with 6.2% in agriculture and 8.5% in manufacturing²³⁸. They are concentrated in urban areas, and comprehensive efforts to foster their development will necessarily include a rural outreach component.

Access to finance is often a hurdle for SMEs, and in Moldova this is no different. Banks tend to be concentrated in urban areas, leaving rural SMEs underserved²³⁹. SMEs also tend to possess low-value assets and have little access to real estate which is a common form of collateral, without which credit can have small and short maturities accompanied by high interest rates²⁴⁰. Additionally SMEs also frequently lack the business skills required to obtain bank loans, and sometimes are hampered by their short credit histories. Some initiatives for microcredit do exist, such as the Credit Guarantee Fund, which targets women entrepreneurs and young entrepreneurs, but they are underused²⁴¹.

In addition to access to finance, business development services (BDS) are required; BDS includes training, consulting, marketing, information provision about sectors of the economy, technology development and transfer, and business linkage promotion²⁴². There is a lack of information about BDS, and addressing this would support the development of the SME sector.

While barriers to economic and social development exist for many sections of the population, specific groups are particularly marginalised when it comes to participating in economic processes- women, youth, persons with disabilities and rural populations have significant hurdles to

entrepreneurship, and entering the formal economy. Given the constraints on women in the workplace, women often enter the informal economy as micro entrepreneurs.

In Moldova female-owned businesses currently represent about 25% of all enterprises, and growth among female-owned firms remained lower between 2014 and 2016, than among male-owned firms²⁴³. There are signs that the attitude of government officials, and banks, disproportionately affect women entrepreneurs²⁴⁴. Women appear to face systematic barriers, which need to be addressed.

Support for SMEs is an important part of a healthy environment for their growth. Enterprise respondents were asked about what kinds of service and incentives were offered for SMEs. The chart below shows a ranking of the respondents' awareness of the existence of incentives at national, branch and municipal level, in terms of small enterprise support, simplified registration procedures, access to finance, access to tenders, tax benefits, social security benefits and worker training programs. The large number of respondents who do not reply to this question, also reflects that they either do not have information on available support services, or that there is not much support. **CHART 71**

When asked about what incentives government should introduce for the development of SMEs only 44, of the 400 representatives of enterprises surveyed answered. The common thread in their responses was threefold. Firstly they wanted financial incentives and access to financing opportunities (grants, subsidies and loans with affordable rates), they mentioned that an easier fiscal regime was required, with a lower tax rate for the first years of enterprise activity, and a smaller number of fiscal controls; lastly they mentioned that the fiscal legislation should not be changed too often.

Concerning the adequacy of the support system for individuals looking to establish a new busi-

²³⁶ Ibid.

²³⁷ Ibid.

²³⁸ Ibid.

²³⁹ Ibid.

²⁴⁰ Ibid.

²⁴¹ Ibid.

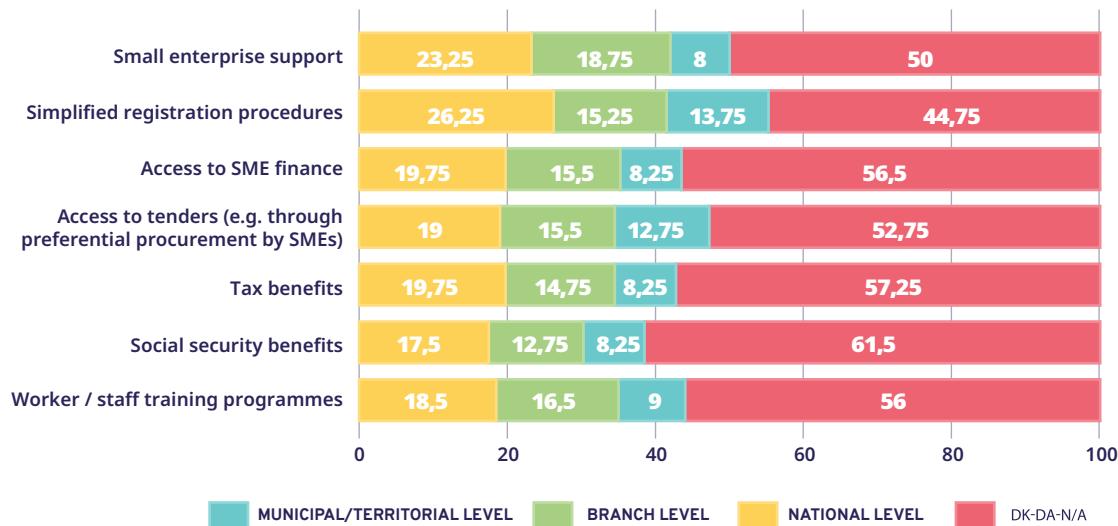
²⁴² OECD, 23 November 2016.

²⁴³ World Bank, 23 November 2017.

²⁴⁴ Ibid.

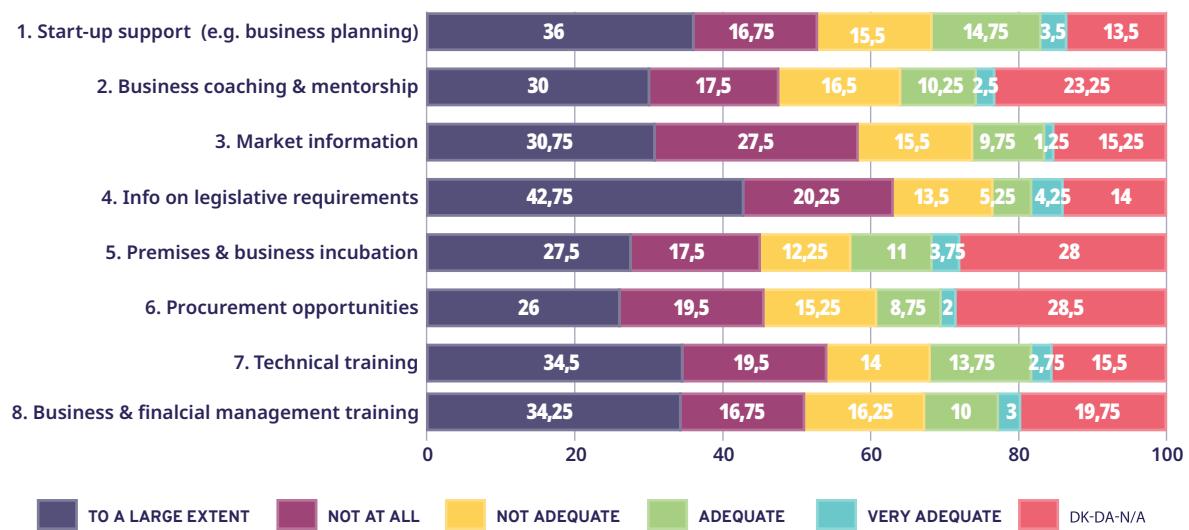


CHART 71: Does the government provide any of the following services and/or incentives for SMEs?



Source: Moldova EESE Survey

CHART 72: Is there an adequate support system for individuals looking to establish a new business?



Source: Moldova EESE Survey



CHART 73: Most problematic factors for the development of enterprises in the Republic of Moldova



Source: Moldova ESEE Survey

ness, survey respondents answered that while legislative requirements were largely adequate, other areas such as procurement opportunities were lagging. The chart below shows responses to questions about start-up support, business coaching, market information, legislative requirement information, business incubation, procurement opportunities, technical training and business and financial management training. Between 16 and 27% of enterprise respondents thought that there wasn't any support, for each of these, which shows that even while some respondents thought that support existed to a large extent some respondents felt that the start-up environment could be more supportive for individuals. **CHART 72**

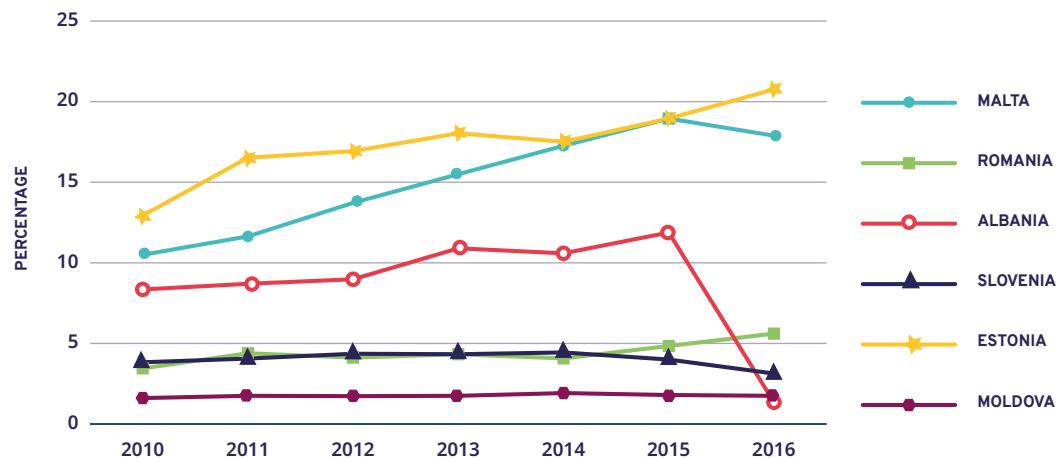
The respondents from enterprises were asked to rank the factors they found most problematic in the development of enterprises in Moldova. This exercise was very revealing, as it uncovered the concerns about poor access to financing, selected by 20.3% as their greatest concern, political instability (19.8%), lack of an adequately trained labour force (12.8%), and poor quality of governance (12.8%). A full list of factors is given in the chart below. **CHART 73**

The New Business Density indicator shows the number of newly registered limited liability companies per 1,000 working-age people (15-64) in a particular year. Over the past few years, Moldova has gone from 1.61 in 2010 to 1.75 in 2016. The countries used for comparison have had different trajectories. Estonia and Malta both saw comparably high increases in new business density going from 12.93 to 20.76, and 10.50 to 17.89 respectively. Romania had more modestly increasing new business density going from 3.45 to 5.61. In comparison Slovenia saw a small decline, going from 3.83 to 3.13, while Albania saw a steeper decline in new business density going from 8.35 to 1.35.

FIGURE 22



FIGURE 22: New Business Density



Source: World Bank: World Development Indicators

KEY INDICATORS

New Business Density

The number of newly registered limited liability companies per 1,000 working-age people (those ages 15-64) in that year.

Source: World Bank, World Development Indicators

	2010	2011	2012	2013	2014	2015	2016
Moldova	1.61	1.75	1.73	1.75	1.92	1.80	1.75
Estonia	12.93	16.52	16.93	18.04	17.51	18.95	20.76
Slovenia	3.83	4.06	4.36	4.33	4.44	4.00	3.13
Albania	8.35	8.70	8.98	10.90	10.59	11.88	1.35
Romania	3.45	4.39	4.12	4.33	4.07	4.84	5.61
Malta	10.50	11.64	13.72	15.50	17.26	18.95	17.89



4.2 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 to find good jobs, and helping enterprises to find the skilled workers they require. A well-educated and skilled workforce is key to economic and social development and the lack of a well-educated and skilled workforce is often a significant challenge for emerging countries.

Following independence Moldova experienced one of the largest and longest-lasting losses of productive capacity among transition economies, which led to large scale migration of the working age population²⁴⁵. Though remittances have helped fuel an economic revival, local job creation is a critical component of economic growth. Aligning education and training with economic policies, and ensuring coordination in skills development is crucial to promoting inclusive and sustainable growth²⁴⁶. In 2018 a draft law on apprenticeship and professional training was developed to help economic operators train unskilled workers, or those whose professional qualifications allow allow them to find a job²⁴⁷.

In comparison with the rest of the world Moldova has achieved a mid-level of human development but in comparison to Europe it could perform better²⁴⁸. Although government expenditure, literacy rates, and enrolment ratios are relatively good, they do not adequately convey the quality and efficiency of the education system²⁴⁹. The enrolment ratio in tertiary education is much lower than in neighbouring countries, and the lacunae in vocational training pose a challenge to meet the government's objective of matching the quantity and quality of skills and knowledge of people with the

demands of the labour market²⁵⁰. According to National Employment Agency data almost 7,000 jobs were available in 2018 for people with vocational secondary education and unskilled workers, with workers in the textile and clothing industry remaining the most sought after on the labour market²⁵¹.

The low productivity of labour in Moldova reflects an incomplete transition from a planned economy dominated by agriculture and high informal employment²⁵². Low productivity is a problem outside of agriculture as well, with more than 40% of Moldovan firms in 2016 reporting that the lack of human capital restricts their growth²⁵³.

In 2012 Moldova's education expenditure, as a percentage of GDP, was 10th in comparison to the rest of the world²⁵⁴. The literacy rate is 90% and from primary to the end of high school takes about 12 years²⁵⁵. Similar to countries like Germany the general secondary education in Moldova is divided into two cycles, with a compulsory lower secondary component which lasts five years, and those who want to study another three years needing to pass a certificate of gymnasium studies to do so²⁵⁶. After eleven years of schooling those who want can choose to pursue technical or vocational secondary education through industrial trade schools that offer certifications²⁵⁷. The Moldovan constitution guarantees free public education to all citizens²⁵⁸.

The demand for secondary and post-secondary vocational technical education is still quite low as the system is not well aligned with the needs of the market²⁵⁹. In 2013 the Government of Moldo-

245 Ibid.

246 Government of Moldova, 4 July 2018.

247 ILO, 2016.

248 Ibid.

249 Borgen Magazine, 3 February 2015.

250 Ibid.

251 Borgen Magazine, 3 February 2015.

252 Ibid.

253 The Borgen Project, 24 October 2017.

254 FES, 2017.

245 UNCTAD, 2013.

246 Ibid.

247 Government of Moldova, 4 July 2018.

248 UNCTAD, 2013.

249 Ibid.



va approved the Strategy for the Development of Vocational and Technical Education 2013-2020; which envisages a significant revision of the TVET sector²⁶⁰. Adult training, and human capital development in general is a matter of urgency; in 2016 only 0.96% of adults in Moldova took part in a training course, whereas among neighbours and the rest of Europe this figure is much higher²⁶¹. There needs to be more of an investment in lifelong learning to avoid the negative cycle of low productivity, and a less sophisticated economy²⁶².

The school drop-out rate has reduced in the last five years, but at 20% it is still high; early leavers from the educational system tend to include men in rural areas who either go abroad, or are employed in informal agriculture²⁶³. A 2012 study of Moldova's migration situation conducted by the IOM revealed the lack of economic opportunities in Moldova; in 2012 nearly 65% of migrants had a high-school education and over 10% had a higher education—an increase of nearly 3 percentage points from 2005²⁶⁴. The same study indicated that even though there was demand for skilled labour in Moldova, wages were more than twice as high in Romania and Russia as in Moldova²⁶⁵.

Enterprise Survey respondents were asked about the availability of skilled workforce in the country, and the quality of the educational system. More than half of respondents, at 56.8% thought that there were significant skills deficits. 17.3% of survey respondents felt that there were minor skills deficits, 11.3% felt there generally were deficits, and 11.3% also felt that there were generally no deficits. **CHART 74**

Enterprise respondents were asked about the extent to which they thought tertiary and vocational education in Moldova met the needs of the enterprises. 50.5% of respondents felt that in some areas

as tertiary and vocational education did not meet needs, while 26.8% felt that it met most needs, 16.8% felt that it did not meet needs at all, and 2.8% felt that it met all needs. **CHART 75**

Similarly when asked about higher education meeting the demands of enterprises 47.3% of enterprise respondents conceded that there were areas in which it did not meet all the needs of enterprises. However as before a large proportion, 33.8% felt that the system did currently meet most needs, while 12% felt that the higher education system did not meet needs at all, and 2% felt that all needs were currently being met.

More than half of the enterprise respondents thought that businesses in Moldova made only a small contribution towards human resource development through internal training. 54.3% said investment in training was small, 23% found it to be moderate, 6% said it didn't exist at all and 4.5% found it to be large. Questions about external training produced similar divisions of opinion, with 58% of respondents thinking that investment in external training for employees, by businesses was low, and only 13.5% thinking it was moderate, 7.8% finding it to be non-existent, and 2.5% finding it to be large. Overall we can generalize to say that the perception of investment in human resources is that businesses do not often undertake this whether internally or externally. **CHART 76**

When asked about how often training was conducted for employees in their enterprise the respondents from enterprises had mixed answers. 38% of employer representatives responded that their employees were rarely trained, while 33% said this happened often; a further 18% said this was always the case while 7.8% said this was never the case.

Additionally, when asked about whether their enterprise had a training budget 54% of employer representatives said no, while 22.8% said yes; 12.3% said there were plans for this in the future, while 7.3% said this had existed in the past. **CHART 77**

The Moldova EESE Survey also examined factors hindering the training of employees in the

²⁶⁰ UN, 2018.

²⁶¹ FES, 2017.

²⁶² Ibid.

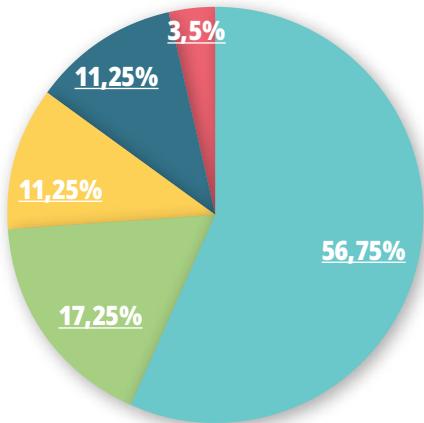
²⁶³ Ibid.

²⁶⁴ Carnegie Endowment for International Peace, 23 May 2017.

²⁶⁵ Ibid.

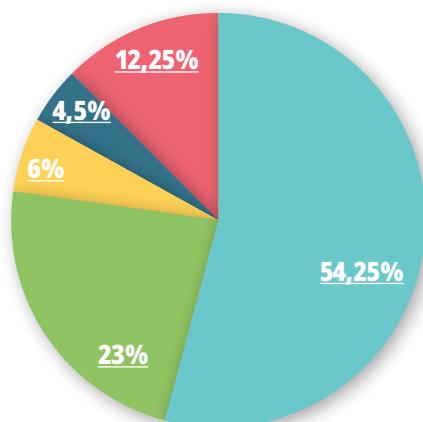
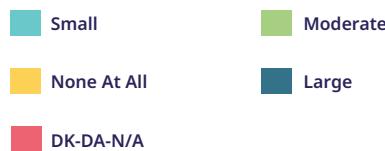


CHART 74: Do you think that workers have the skills demanded by business in Moldova?



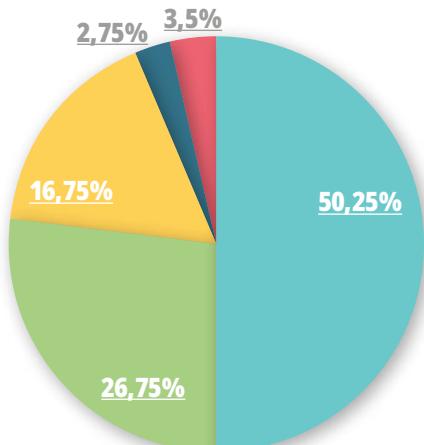
Source: Moldova ESEE Survey

CHART 76: How much investment do businesses in Moldova contribute towards human resource development through internal training?



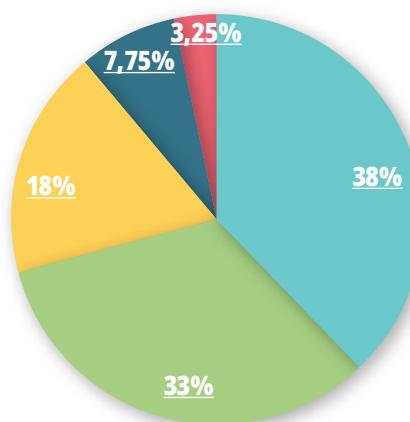
Source: Moldova ESEE Survey

CHART 75: To what extent do you think that tertiary and vocational education in Moldova meets the needs of the enterprises?



Source: Moldova ESEE Survey

CHART 77: How often are employees trained in your enterprise?



Source: Moldova ESEE Survey



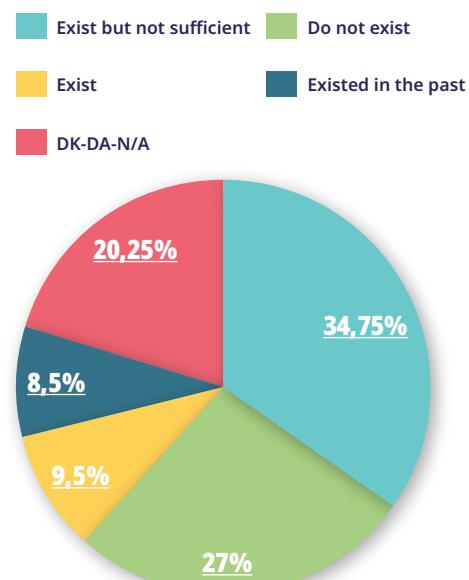
enterprises of those employers who were surveyed. The enterprise respondents identified the high turnover of employees, and lack of training funds as significant factors inhibiting the training of employees. Other factors included the lack of relevant courses and trainers, the lack of instruction time, and low motivation among employees.

CHART 78

When asked about government programs for professional development or training the largest proportion of employers surveyed, 34.8% said that they existed but that these were not sufficient. A further 27% said that they did not exist, 9.5% said they existed, and 8.5% said they were a thing of the past. **CHART 79**

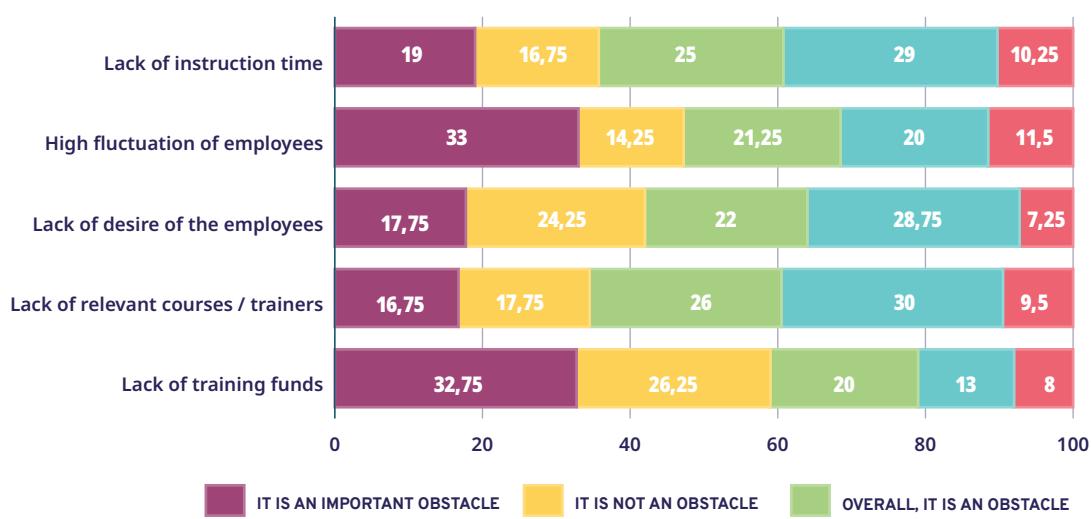
On enquiring about the costs of training services which were available on the market 42.8% of the employers surveyed said that the cost of existing training made it rather inaccessible, with a further 22.8% saying they were rather accessible at the current cost. It was found that 40% of the respondents assess the current or future competencies and requirements at least once a year. 23% do it once in 2-3 years and 17.3% do this less than once

CHART 79: Are there in the Republic of Moldova governmental programs for professional development or training that could help you train your employees?



Source: Moldova EESE Survey

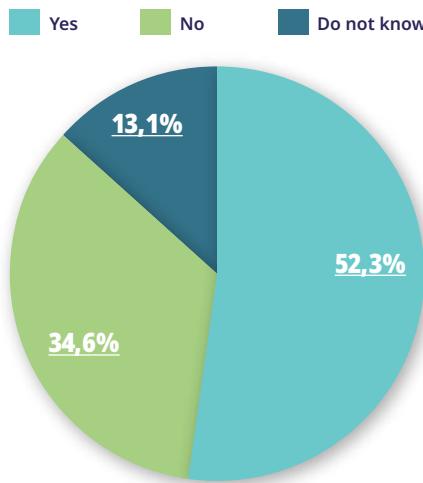
CHART 78: To what extent do the given factors hinder training of employees in your enterprise?



Source: Moldova EESE Survey



CHART 80: Does your company provide financial support for training to its workers?



Source: Moldova EESE Survey

in 3 years; 10.5% never do such assessments. The key informant interviews supplement the findings of the employers' survey in that the lack of a qualified workforce is one of the most important challenges the business community representatives are presently facing. **CHART 80**

Employees surveyed as part of the Moldova EESE Survey were asked about their company providing financial support for training to its workers. 52.3% of the employees mentioned that their companies provided financial support for the training of the workers. 34.6% of employees said this was not the case. When asked about whether the company had provided training activities in the last 12 months 57.9% of employees said this had happened, while 35.5% of employees said this had not occurred. 48.6% of employees participating in the survey did also participate in training activities at work in the last 12 months, while 15% said they didn't and the question did not apply to 36.4% who did not have the opportunity. **FIGURE 23**

The public expenditure on education indicator consists of current and capital public expenditure on education plus subsidies to private education at the primary, secondary, and tertiary levels as

a percentage of the GDP. The most recent data available for comparison of countries is from 2014 where we see that Moldova outperforms its comparison countries as it spends more than the other countries as a percentage of GDP, at 7.46% followed closely by Malta at 7.25%. In 2014 Romania spent the lowest share at 3.13% of its GDP.

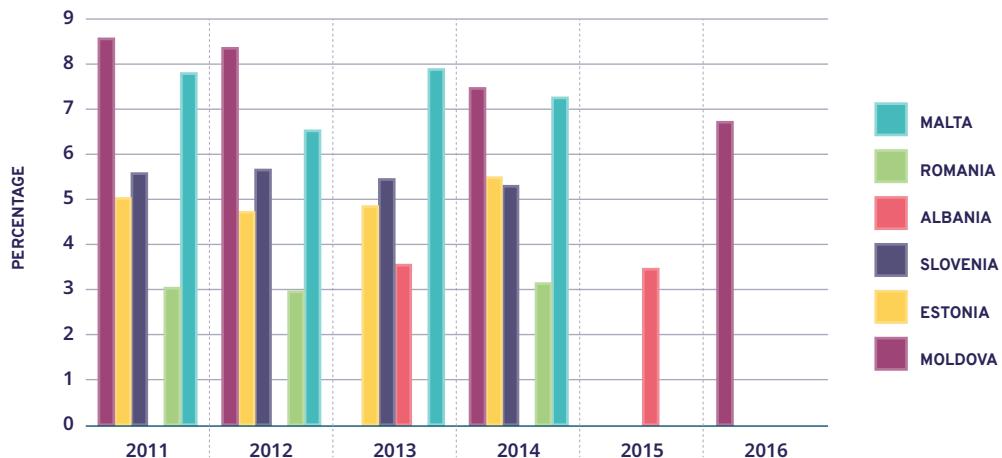
A second important indicator is the Education Index. The Education Index is measured by the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio. The adult literacy rate gives an indication of the ability to read and write, while the gross enrolment ratio gives an indication of the level of education from kindergarten to postgraduate education. Based on the data, Moldova is among the low performers as it scored 0.725 in 2015, (the same as Malta), and just slightly higher than Albania at 0.715. Slovenia performs best on this indicator at 0.886 in the same year. **FIGURE 24**

With the indicator Extent of Staff Training the World Economic Forum (WEF) Survey asks business leaders to provide their expert opinions on the following: "The general approach of companies in your country to human resources is: (1 = to invest little in training and employee development, 7 = to invest heavily to attract, train, and retain employees)". **FIGURE 25**

In regards to this indicator, Moldova recorded the lowest value at 3.2 in 2017, having dropped from 3.4 in 2014, followed by Romania (at 3.3), Albania (at 3.8), Slovenia (at 4.1), Malta (at 4.5) and Estonia (at 4.6).

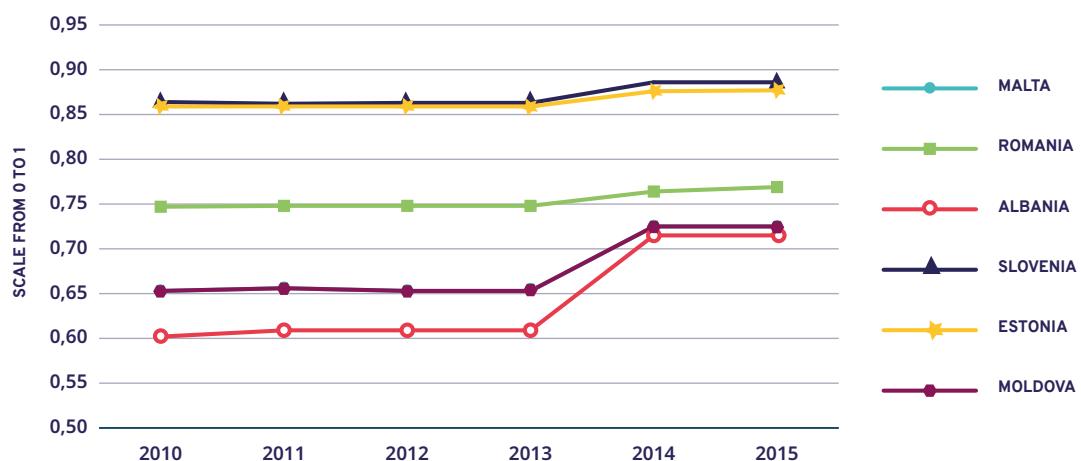


FIGURE 23: Public Spending on Education



Source: World Bank: World Development Indicators

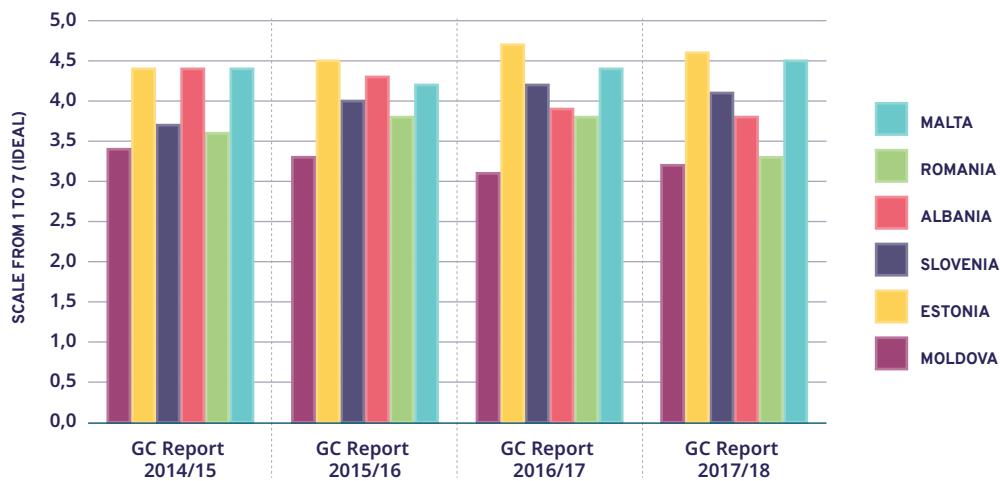
FIGURE 24: Education Index



Source: UNDP Human Development Reports



FIGURE 25: Extent of Staff Training



Source: WEF, *Global Competitiveness Reports*



KEY INDICATORS

Public expenditure on education

Public expenditure on education consists of current and capital public expenditure on education plus subsidies to private education at the primary, secondary, and tertiary levels.

Source: World Bank, World Development Indicators

	2011	2012	2013	2014	2015	2016
Moldova	8.56	8.35		7.46		6.71
Estonia	5.02	4.71	4.84	5.48		
Slovenia	5.57	5.65	5.44	5.29		
Albania			3.54		3.45	
Romania	3.03	2.95		3.13		
Malta	7.79	6.52	7.88	7.25		

Education Index

It measures the educational attainment. The Education Index is measured by the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment ratio. The adult literacy rate gives an indication of the ability to read and write, while the gross enrolment ratio gives an indication of the level of education from kindergarten to postgraduate education. It is a weighted average of Adult literacy index (with two-thirds weighting) and the combined primary, secondary, and tertiary gross enrolment ratio (Gross enrolment index [0, 100]) (with one-third weighting).

Source: UNDP Human Development Reports

	2010	2011	2012	2013	2014	2015
Moldova	0.653	0.656	0.653	0.653	0.725	0.725
Estonia	0.859	0.859	0.859	0.859	0.876	0.877
Slovenia	0.864	0.862	0.863	0.863	0.886	0.886
Albania	0.602	0.609	0.609	0.609	0.715	0.715
Romania	0.747	0.748	0.748	0.748	0.764	0.769
Malta	0.653	0.656	0.653	0.653	0.725	0.725

Extent of staff training

The World Economic Forum (WEF) Survey asked the business leaders to provide their expert opinions on the following: "The general approach of companies in your country to human resources is: (1=to invest little in training and employee development, 7=to invest heavily to attract, train, and retain employees)".

Source: World Economic Forum, The Global Competitiveness Report.

	GC Report 2014/15	GC Report 2015/16	GC Report 2016/17	GC Report 2017/18
Moldova	3.4	3.3	3.1	3.2
Estonia	4.4	4.5	4.7	4.6
Slovenia	3.7	4	4.2	4.1
Albania	4.4	4.3	3.9	3.8
Romania	3.6	3.8	3.8	3.3
Malta	4.4	4.2	4.4	4.5

Labour force participation rate, in percent

The labour force participation rate is the proportion of the population ages 15-64 that is economically active: all people who supply labour for the production of goods and services during a specified period. The labour force participation rate is calculated by expressing the number of persons in the labour force as a percentage of the working-age population. The labour force is the sum of the number of persons employed and the number of unemployed. The working-age population is the population above a certain age, prescribed for the measurement of economic characteristics.

Source: ILO

	2012	2013	2014	2015	2016	2017
Moldova	40.75	41.47	41.30	44.10	42.80	42.45
Estonia	61.28	61.28	61.15	62.20	62.95	62.75
Slovenia	57.71	57.43	57.69	57.37	56.68	56.26
Albania	57.44	53.65	54.36	56.45	56.28	56.07
Romania	54.58	54.41	54.68	54.32	53.58	53.22
Malta	51.65	52.79	53.69	54.20	54.60	54.46



4.3 Social justice and social inclusion

Inequality and discrimination hinder the creation and growth of sustainable enterprises. Explicit policies for social justice, social inclusion and equality of opportunities for employment are needed to promote the creation of an enabling environment. Income, gender, and spatial inequities, between rural and urban areas, are rife in Moldova, and though the Constitution goes a long way towards legislating against some of these there is a lot of work to be done to achieve greater social justice and social inclusion.

The shortcomings in terms of economic growth have had an impact on social wellbeing. Sustainable economic growth and poverty relief are dependent in the long term, on increasing labour productivity and higher levels of employment²⁶⁶. The national poverty rate dropped from 68% in 2000 to 11.4% in 2014; and inequality as measured by the GINI coefficient also declined²⁶⁷. Despite impressive achievements in poverty reduction and shared prosperity, 41% of the population lived below the regional poverty line of USD 5 a day in 2014²⁶⁸. Fulltime employment is declining driven by increasing migration and early retirement among an aging population²⁶⁹.

Though the average disposable income of the population doubled between 2010 and 2015, the gap between rural and urban populations also increased²⁷⁰. The urban rural income gap went from 23.6% in 2010 to almost 42% in 2015²⁷¹. The slow growth of the agricultural sector, limited access to markets, and lack of modern services means that people in rural areas are persistently poorer. There are also regional disparities in consumption. Remittances account for only 6% of disposable income in Chisinau but they account for one

fourth of the disposable income for Southern residents; Northern region residents are slightly better off as remittances accounted for about a fifth of disposable income there²⁷².

When considering dimensions of wellbeing that include educational, health, housing and social living standards the World Bank found that about 24% of the population would have been considered multidimensionally poor, which is twice the number of the monetary poor, and shows little improvement since 2007²⁷³. The disparity in living conditions and access to services between urban and rural areas is stark: 43% of people in rural areas have access to drinking water while 90% of those in urban areas do²⁷⁴.

The labour force participation rate among women aged 25-34 is much lower than among men in the same age group, presumably due to women being expected to perform the overwhelming share of unpaid household and family-care related work²⁷⁵. This impacts their access to equal treatment in paid work. There is a reported gender gap, a lack of access to affordable child-care facilities, narrow property rights for women, reduced access to financial resources, and prevailing patriarchal attitudes socially, which combine to reduce employment opportunities for women²⁷⁶. On average women earn 12% less than men with the highest gender-based income gaps reported in information and communications (23%), industry (18.3%), and the arts (15.1%)²⁷⁷.

In 2017 the Government of Moldova approved the Gender Equality Strategy for 2017-2021 to promote a comprehensive multipronged approach to gender equality including improving institutional mechanisms, but also combating stereotypes and providing for gender-sensitive budgeting²⁷⁸.

266 FES, 2017.

267 World Bank, May 2016.

268 Ibid.

269 Ibid.

270 UNDP, 14 June 2017.

271 Ibid.

272 Ibid.

273 World Bank, May 2016.

274 UNDP, 14 June 2017.

275 ILO, 2016.

276 Ibid.

277 UNDP, 14 June 2017.

278 U.S. Department of State, 20 April 2018.



The law requires that women occupy at least 40% of decision-making positions in government and political offices²⁷⁹. Despite this, women are underrepresented in decision-making and elected positions, as well as overwhelmingly represented in poorly paid jobs in public administration, education and healthcare²⁸⁰.

Violence against women remains an issue of concern; almost two thirds of Moldovan women face psychological, physical or sexual violence in their lifetime²⁸¹. The law criminalizes rape, forcible sexual assault, and recognizes spousal rape as a category; a 2015 report found that almost one fourth of men in the country had had sex with a woman without her consent, and about 18% admitted to marital rape²⁸².

Other groups that face social and economic exclusion are people living in rural areas, the poor, the elderly, and people with disabilities²⁸³. The situation of people with disabilities remains precarious; they have limited access to the labour market and tend to fall under the poverty line as a consequence²⁸⁴. The absence of adapted infrastructure and prevailing negative attitudes exclude people with disabilities from accessing basic services, and makes it very difficult for them to be economically independent²⁸⁵. Over 70% of public institutions are not equipped with access ramps to accommodate people with mobility challenges²⁸⁶. According to Government of Moldova data there are about 181,000 people with disabilities registered in Moldova, including about 12,000 children²⁸⁷. In 2017 a National Program for Social Inclusion of Persons with Disabilities for 2017-

2020 was approved, along with an Action Plan for its implementation²⁸⁸.

Among ethnic minorities Roma people face the strongest social prejudice. Rates of absolute poverty, illiteracy and unemployment are twice as high among Roma, as compared with the non-Roma population²⁸⁹. In 2011 the Government of Moldova launched the second phase of an action plan to better integrate the Roma population into the economic, political and social life of the country²⁹⁰. Roma women, in particular, face extreme exclusion and discrimination; they have lower levels of education, higher unemployment, lower incomes, high rates of violence, and severely limited freedom of movement and choice²⁹¹. Sexual minorities, people living with HIV, and people with mental health disorders also face stigma and discrimination²⁹².

The GINI coefficient²⁹³ measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution.

A value of 0 represents absolute equality, a value of 100 absolute inequality. In 2012 Moldova was among the middle to lower performers among the comparison countries in terms of income equality: it had a value of 29.2; for comparison in the same year Slovenia has the best value with 25.6 while Estonia had the poorest at 35.1.

²⁷⁹ Ibid.

²⁸⁰ SDC, December 2017.

²⁸¹ Ibid.

²⁸² U.S. Department of State, 20 April 2018.

²⁸³ SDC, December 2017.

²⁸⁴ ILO, 2016.

²⁸⁵ SDC, December 2017.

²⁸⁶ UNDP, 14 June 2017.

²⁸⁷ Government of Moldova, 10 August 2017.

²⁸⁸ Ibid.

²⁸⁹ SDC, December 2017.

²⁹⁰ ILO, 1 April 2018

²⁹¹ Ibid.

²⁹² SDC, December 2017.

²⁹³ World Bank: World Development Indicators

²⁹⁴ Ibid.



GINI coefficient

The GINI index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A value of 0 represents absolute equality, a value of 100 absolute inequality.

Source: World Bank, Development Research Group. Data are based on primary household survey data obtained from government statistical agencies and World Bank country departments.²⁹⁷

	2011	2012	2013	2014	2015	2016
Moldova	30.6	29.2	28.5	26.8	27	26.3
Estonia	32.5	32.9	35.1	34.6	32.7	
Slovenia	24.9	25.6	26.2	25.7	25.4	
Albania		29				
Romania	27.2	27.3	27.5			28.3
Malta	29.1	29.4	28.8	29		



4.4 Adequate social protection

Providing citizens with access to key services, such as quality health care, unemployment benefits, maternity protection, and a basic pension, is key to improving productivity. Protecting workers' health and safety at the workplace is also vital for sustainable enterprise development and productivity gains. Social protection policies are important in developing, and high-income countries, for the role they play in protecting the economically vulnerable from shocks like interruptions to income, and by improving equality of opportunity so that families may escape poverty through educational and health attainments.

Given the context of an aging population, and slower economic growth Moldova faces a serious challenge in terms of the maintenance of a well-functioning social protection system that ensures basic health care and income security for all²⁹⁵. CNAS implements the national social insurance system which covers old age, disability, survivors pensions, employment injury benefits, sickness benefits, maternity benefits and unemployment insurance benefits²⁹⁶. Farmers and the self-employed are mandatorily covered by health insurance, but social insurance is voluntary²⁹⁷.

Moldova has achieved reasonably wide social security coverage of workers in the formal sector, but gaps exist due to undeclared work, and for people in rural areas who are more likely to be in the informal economy²⁹⁸. The Association Agreement addresses reform of the social protection system to attain a fair and sustainable pension system to ensure decent living after retirement for all sections of the population²⁹⁹.

Income growth and poverty reduction in Moldova were driven, in part, by a pension increase

in 2012³⁰⁰. This is reflected in the structure of household incomes; the share of pensions in the budgets of the poor rose from 23.2% to 27.7% between 2007 and 2014³⁰¹. Targeted social assistance programs exist, for example a heating allowance program, but the benefits are small, and the coverage is narrow, which limits the ability of these programs to respond to sharp downturns in consumption³⁰². The cost of pensions went from 5% to 8% of the GDP between 2002 and 2012³⁰³. The pension dependency ratio is expected to increase, because of the reduction in working-age population, and the combination of expanding inactivity and informality³⁰⁴. In December 2016 several structural changes to the pension system were introduced, including a more transparent pension calculation formula, total equivalence between contributions and benefits, and equal treatment of men and women³⁰⁵. The new policy also introduced retroactive valorisation whereby the pensions of existing pensioners were recalculated based on the revalued wage base³⁰⁶.

Public investment in health is relatively high, as it is for education, but possibly intra-sector efficiency needs to improve to allow the country to achieve better outcomes³⁰⁷. In 2014 a total of 162,000 persons were covered through the health insurance system, and regardless of coverage everyone is entitled to receive free emergency health care services³⁰⁸. Moldovan health insurance is administered by the National Social Health Agency (CNAM), and it covers about 2.5 million persons, equivalent to about 82% of the population³⁰⁹.

All employees in Moldova are mandatorily covered by health insurance- in 2015 there were

²⁹⁵ World Bank, May 2016.

²⁹⁶ Ibid.

²⁹⁷ Ibid.

²⁹⁸ Ibid.

²⁹⁹ FES, September 2017.

³⁰⁰ Government of Moldova, 30 September 2018.

³⁰¹ UNDP, 2012.

³⁰² ILO, 2016c.

³⁰³ Ibid.

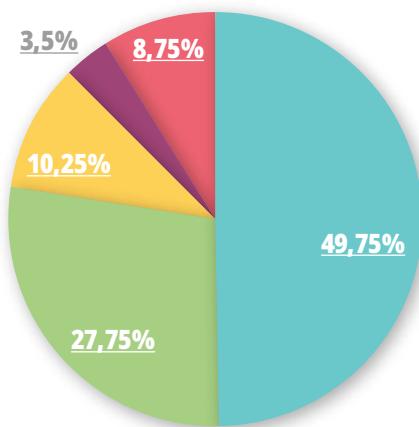
³⁰⁴ Ibid.

³⁰⁵ Ibid.



CHART 81: Do you agree that legal health and security standards at the work place applied in Moldova are adequate and practical for enterprises?

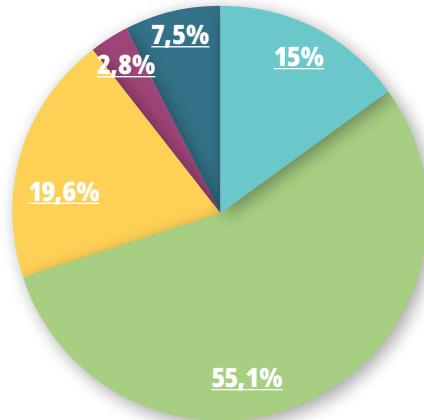
Rather agree Rather not agree Totally agree
Totally disagree DK-DA-N/A



Source: Moldova EESE Survey

CHART 83: Looking at the future, how secure do you feel in terms of the future of your job?

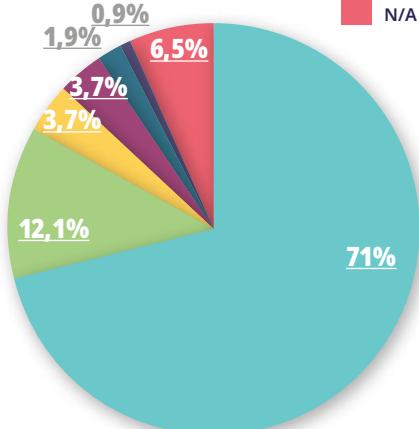
Very Secure Secure Not secure
Not secure at all Do not know



Source: Moldova EESE Survey

CHART 82: Who pays for health insurance?

Enterprise/Factory Own funds Other
Do not know Trade unions Government
N/A



Source: Moldova EESE Survey

850,000 employees who contributed to the system³¹⁰. Groups outside of the labour force, including children, pensioners, persons with disabilities, employed persons, pregnant women, and mothers with four or more children, also have health coverage through the state³¹¹. Health insurance coverage is almost complete in urban areas, but farmers, who are more likely to be self-employed, have high out of pocket costs, and one catastrophic event can lead to health expenditures which puts them at risk of sliding into poverty³¹².

Moldova has a legal and institutional framework to promote decent working hours, and to legislate the duration of annual paid leave to comply

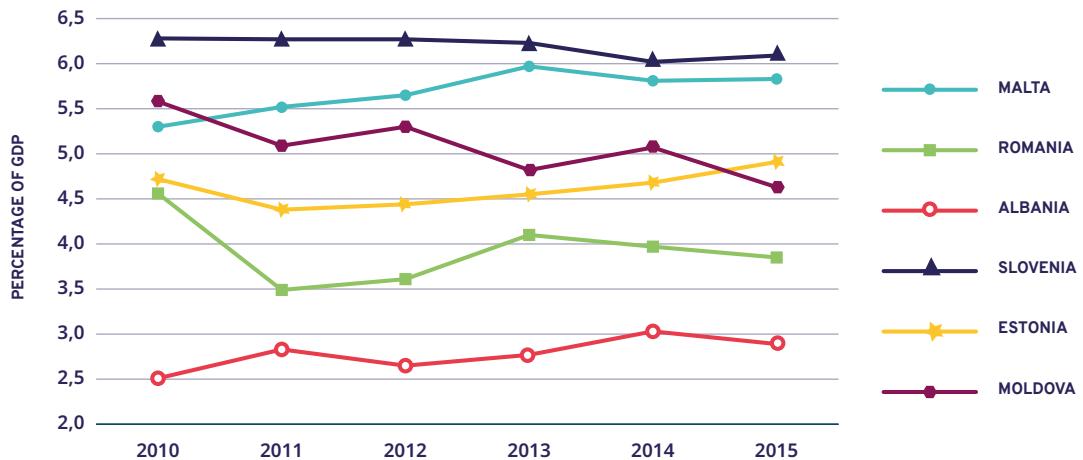
310 Ibid.

311 Ibid.

312 SDC, December, 2017.



FIGURE 26: Public Expenditure on Health



Source: World Bank, World Development Indicators

with international standards³¹³. Though provisions have been made in national legislation to better reconcile work and family responsibilities, further development of leave policies in combination with innovative working time arrangements is necessary; national legislation needs to further align with ILO Conventions on gender equality, and EU requirements on gender, to avoid discrimination³¹⁴. In 2017 the Government of Moldova approved a draft law to grant maternity allowances to the wives of employed husbands, even if they were not employed and compulsorily insured³¹⁵.

The Moldova EESE Survey asked about whether employers thought that legal health and security standards at the work place applied in Moldova were adequate and practical for enterprises. The largest proportion, 49.8% rather agreed that the legal standards on safety in the workplace were adequate, while 27.8% rather did not agree; 10.3% totally agreed, while 3.5% completely disagreed that standards were adequate. **CHART 81**

As part of the Moldova EESE Survey employees were asked about health insurance. 86.9% of employees had health insurance, while 6.5% each did not know, and did not have any. 71% of the surveyed employees got theirs through the workplace. A further 12.1% paid for health insurance themselves, while small proportions received theirs through trade unions (1.9%), the government (0.9%), and other sources (3.7%). **CHART 82**

When asked about whether they had health benefits, however, 77.6% of employees said they did not, while 22.4% said that they did. Only 3.7% of employees surveyed mentioned an accident at the workplace in the last two years, when asked about whether they knew of anyone being injured at an enterprise. An overwhelming 91.6% did not know someone who had been injured at the workplace in the last two years. **CHART 83**

In terms of job security, the biggest part of surveyed employees had a positive response. 55.1% felt secure in their jobs, while a further 15% felt very secure. Nearly one fifth however, at 19.6% were not secure, while 2.8% did not feel secure at all in their jobs. When asked about satisfaction 66.4% were satisfied in terms of the future of their

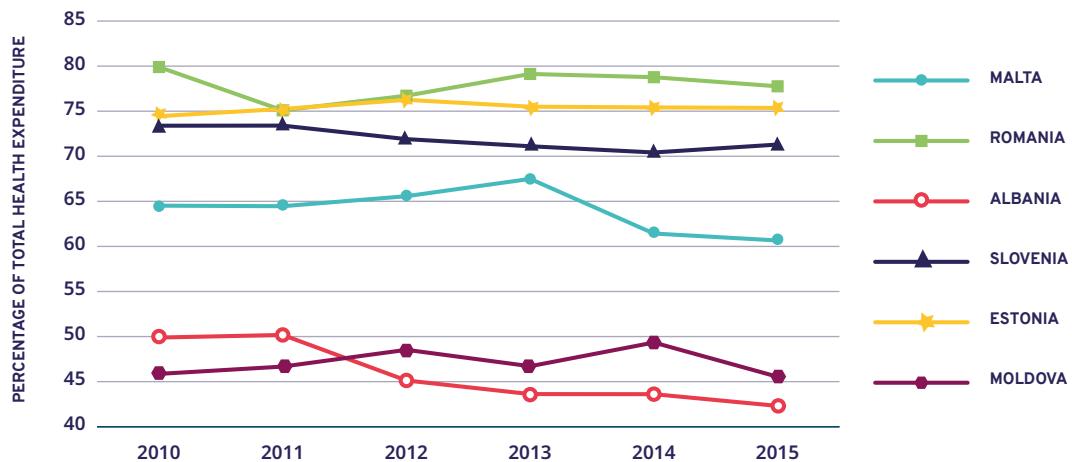
313 ILO, 2016.

314 Ibid.

315 Government of Moldova, 12 June 2017.



FIGURE 27: Coverage by Health Care



Source: World Bank, World Development Indicators

job, while 15.9% said they were satisfied, and only 8.4% said they were not satisfied.

Based on available data for 2015, Moldova is among the middle performers among the comparison countries, as the public expenditure on health as a percentage of GDP in Moldova was 4.63%, having dropped from 5.58% in 2010. In 2015 Slovenia has the highest proportion of public spending on health with 6.09%, followed by Malta at 5.83 and Estonia at 4.91. Romania and Albania both had lower figures than Moldova at 3.85% and 2.89% respectively.

When looking at coverage by health care as a percentage of total health care, which measures the percentage of total public and private health care expenditure not financed by private households, out of pocket payments Moldova was at 45.54% in 2015. This is the lowest among countries used for comparison except for Albania, which was at 42.31% in the same years. Romania had the highest figure at 77.76% in 2015. **FIGURE 27**



Public expenditure on health (% of GDP)

Public expenditure on health as a percentage of GDP—Public health expenditure consists of recurrent and capital spending from government (central and local) budgets, external borrowings and grants (including donations from international agencies and nongovernmental organizations), and social (or compulsory) health insurance funds.

Source: World Bank, World Development Indicators

	2010	2011	2012	2013	2014	2015
Moldova	5.58	5.09	5.30	4.82	5.07	4.63
Estonia	4.72	4.38	4.44	4.55	4.68	4.91
Slovenia	6.28	6.27	6.27	6.23	6.02	6.09
Albania	2.51	2.83	2.65	2.77	3.03	2.89
Romania	4.56	3.49	3.61	4.10	3.97	3.85
Malta	5.30	5.52	5.65	5.97	5.81	5.83

Coverage by health care (% of total health care)

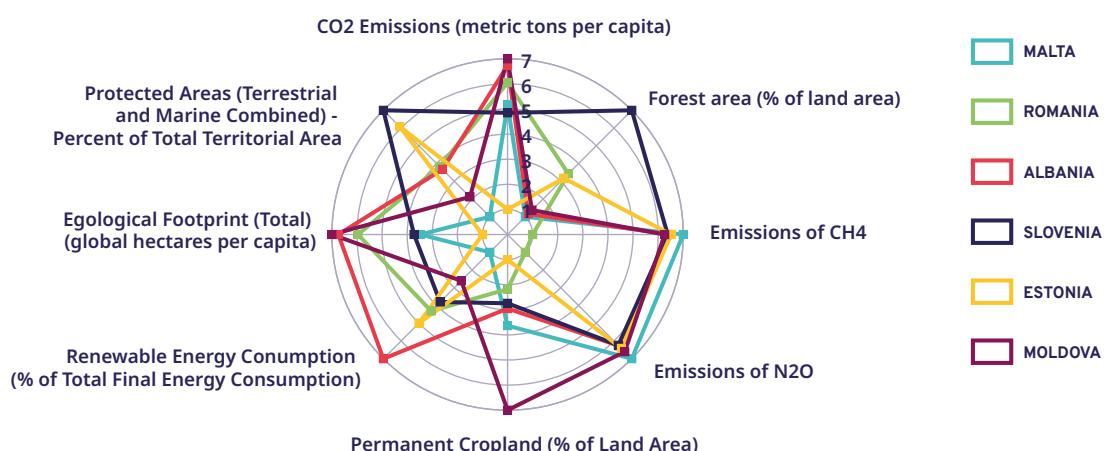
Percentage of total (public and private) health care expenditure not financed by private household's out of pocket payments (as a proxy indicator).

Source: World Bank, World Development Indicators

	2010	2011	2012	2013	2014	2015
Moldova	45.86	46.67	48.53	46.71	49.34	45.54
Estonia	74.45	75.25	76.26	75.50	75.42	75.36
Slovenia	73.39	73.40	71.90	71.11	70.42	71.30
Albania	49.89	50.18	45.13	43.62	43.61	42.31
Romania	79.90	75.09	76.72	79.13	78.77	77.76
Malta	64.52	64.46	65.57	67.49	61.43	60.66

5. Environmental Elements

Indicators Assessing Environmental Elements of an Enabling Environment for Sustainable Enterprises*



* the values for the individual indicators have been harmonized for better presentation and formatted so that the further from the centre a data point is, the better the country's performance in that regard. The original indicator values are included in the chapters.

- The unique biodiversity of Moldova is threatened by climate change, habitat fragmentation and over-exploitation.
- Moldova's low carbon dioxide emissions are good from an environmental point of view, yet these are primarily an indicator of low industrial production.
- Moldova is vulnerable to climate change, and the impact of this on agriculture should be a cause for concern, given the large share of the population that depends on agriculture.
- In 2014 the Government of Moldova approved the Climate Change Adaptation Strategy for 2014-2023.
- The Climate Change Adaptation Strategy has an associated action plan; these provide for sector level policies on managing climate change re-



iated situations and promoting an increase in adaptation capacity.

- Short-term survival strategies and conditions of poverty in rural areas prevent this population segment from investing in sustainable practices, which increases the pressure on the natural resource base.

5.1 Responsible stewardship of the environment

Sustainable enterprise development is closely linked to responsible stewardship of the environment. It requires appropriate regulations, incentives and public procurement policies that promote consumption and production patterns compatible with a country's environmental sustainability.

The biodiversity of Moldova is threatened by climate change, habitat fragmentation and over-exploitation³¹⁶. The enforcement of environmental legislation needs to improve, to reduce environmental degradation, pollution and the unsustainable use of natural resources³¹⁷. Critical ecological concerns include soil and water protection, waste management, health, and drinking water supply³¹⁸.

Moldova is a landlocked country with a total area of 33,952 square kilometres³¹⁹. The terrain is classified as rolling steppe of which 74.9% is agricultural³²⁰. The country is relatively low-lying, the hills towards the centre are densely forested, while cultivated crops have replaced the natural grass cover of the plains and steppes to the north and the south³²¹. Moldova is vulnerable to climate change, and the impact of this on agriculture should be a cause for concern, given the large share of the population that depends on agriculture³²².

The environmental situation in Moldova has worsened in the last ten years in terms of emissions of carbon dioxide, quality of drinking water, and the consumption of fuelwood³²³. The Government of Moldova has made climate change a national priority, and it approaches this from the direction

316 UNDP Moldova, 2018.

317 Ibid.

318 Teleradio Moldova, 14 September 2016.

319 CIA World Factbook, 2018.

320 Ibid.

321 UN, 2018.

322 Ibid.

323 Ibid.



of emissions, as well as climate change adaptation and climate change related risk management³²⁴. An Environmental Strategy for 2014-2023 was approved by the Government of Moldova which is aimed at integrating the principles of environmental protection, sustainable development and green economy development, and climate change adaptation in all sectors of the national economy³²⁵.

In 2014 the Government of Moldova approved the Climate Change Adaptation Strategy for 2014-2023, and the associated action plan; these provide for sector level policies on managing climate change related situations and promoting an increase in adaptation capacity³²⁶. Moldova monitors greenhouse gas (GHG) emissions by the means of a national inventory of sources and sinks³²⁷. Between 1991 and 2013 GHG emissions fell by 70%, largely due to the economic crisis that followed the collapse of the USSR³²⁸. In this period the fuel mix was also changing; coal and fuel oil were replaced with natural gas for the most part³²⁹.

Among natural hazards Moldova is prone to landslides. Current environmental issues include contaminated soil and groundwater due to the heavy use of agricultural chemicals, extensive soil erosion, declining soil fertility, and interactions with changes caused by climate change³³⁰. Due to its topography Moldova is also vulnerable to earthquakes, heavy rainfall, flood and droughts³³¹. In the last two decades severe droughts, floods, and hail have occurred with greater frequency and intensity than previous periods under observation—these natural disasters associated with climate

change are challenging in terms of the economy and the safety of communities³³².

Groundwater resources are limited. Shallow groundwater is a major drinking water source for the majority of the rural population³³³. Short-term survival strategies and conditions of poverty in rural areas prevent this population segment from investing in sustainable practices, which increases the pressure on the natural resource base³³⁴.

The Forest Area indicator has remained relatively stable in Moldova, going from 11.75% of land area in 2010 to 12.44% of land area in 2015. In 2015 Malta is the lowest performer at 1.09%, while Slovenia performs best at 61.97%. Romania, which is the closest neighbour to Moldova was at 29.82% in 2015, while Estonia was at 52.65%, and Albania at 28.16% in the same year. **FIGURE 28**

Moldova's low carbon dioxide emissions are good from an environmental point of view, yet these are primarily an indicator of low industrial production. At 1.39 metric tons per capita emitted in 2014 it is the lowest among the comparison countries, followed by Albania at 1.98, Romania at 3.52, Malta at 5.49, and Slovenia at 6.21 metric tons per capita. Estonia had the highest carbon dioxide emissions per capita at 14.85 metric tons. Slovenia, Romania and Malta have seen a declining trend, while the other countries have seen a slow growth in emissions. **FIGURE 29**

When looking at PM2.5 air pollution, and the levels of population exposed to levels exceeding the WHO guideline, which looks at the percent of the population exposed to ambient concentrations of PM2.5, the percentage is 100 for all the countries, including Moldova, except Estonia which outperforms the other countries at 0.18 in 2016, having reduced from 13.19% in 2011.

³²⁴ UNHabitat, 2016.

³²⁵ Ibid.

³²⁶ Ibid.

³²⁷ Ibid.

³²⁸ Ibid.

³²⁹ Ibid.

³³⁰ CIA World Factbook, 2018.

³³¹ UN Habitat, 2016.

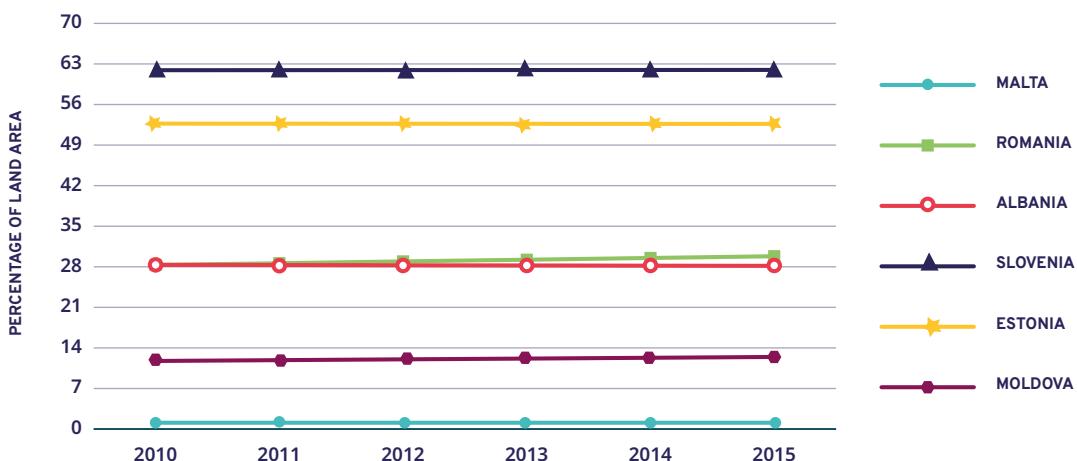
³³² Ibid.

³³³ UN Environment, 2004.

³³⁴ UN, 2018.

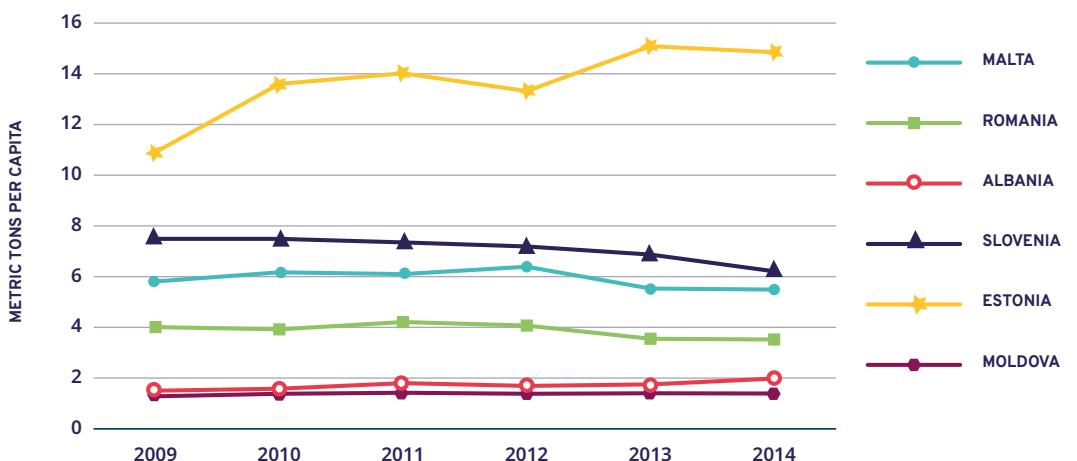


FIGURE 28: Forest Area



Source: World Bank, World Development Indicators

FIGURE 29: Carbon Dioxide Emissions



Source: World Bank, World Development Indicators



CO2 emissions (metric tons per capita)

Carbon dioxide emissions are those stemming from the burning of fossil fuels and the manufacture of cement. They include carbon dioxide produced during consumption of solid, liquid, and gas fuels and gas flaring.

Source: World Bank, World Development Indicators

	2009	2010	2011	2012	2013	2014
Moldova	1.28	1.38	1.42	1.38	1.40	1.39
Estonia	10.91	13.60	14.02	13.32	15.09	14.85
Slovenia	7.49	7.49	7.35	7.19	6.87	6.21
Albania	1.50	1.58	1.80	1.69	1.75	1.98
Romania	4.01	3.92	4.21	4.07	3.55	3.52
Malta	5.81	6.17	6.10	6.39	5.53	5.49

PM2.5 air pollution, population exposed to levels exceeding WHO guideline value (% of total)

Percent of population exposed to ambient concentrations of PM2.5 that exceed the WHO guideline value is defined as the portion of a country's population living in places where mean annual concentrations of PM2.5 are greater than 10 micrograms per cubic meter, the guideline value recommended by the World Health Organization as the lower end of the range of concentrations over which adverse health effects due to PM2.5 exposure have been observed.

Source: World Bank Development Indicators (World Development Indicators Online)³³⁵.

	2011	2012	2013	2014	2015	2016
Moldova	100 ³³⁶	100	100	100	100	100
Estonia	13.19	0.18	17.62	31.97	0.18	0.18
Slovenia	100	100	100	100	100	100
Albania	100	100	100	100	100	100
Romania	100	100	100	100	100	100
Malta	100	100	100	100	100	100

Forest area (% of land area)

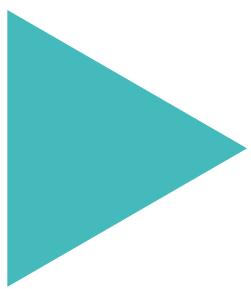
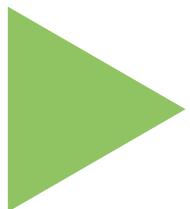
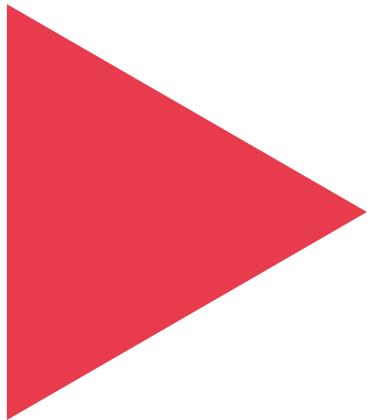
Forest area is land under natural or planted stands of trees of at least 5 meters in situ, whether productive or not, and excludes tree stands in agricultural production systems (for example, in fruit plantations and agroforestry systems) and trees in urban parks and gardens.

Source: World Bank, World Development Indicators

	2010	2011	2012	2013	2014	2015
Moldova	11.75	11.89	12.03	12.16	12.30	12.44
Estonia	52.70	52.69	52.68	52.67	52.66	52.65
Slovenia	61.92	61.93	61.94	61.95	61.96	61.97
Albania	28.33	28.30	28.26	28.23	28.19	28.16
Romania	28.32	28.61	28.93	29.22	29.52	29.82
Malta	1.09	1.09	1.09	1.09	1.09	1.09

335 <http://data.worldbank.org/data-catalog/world-development-indicators>.

336 100% of the population is exposed to levels of PM2.5 air pollution exceeding WHO guidelines.



Assessment Results and Ways Forward

Since becoming an independent country in 1991 Moldova has undergone a political and socio-economic transition from a communist political system and centrally-planned economy towards democracy and a market economy. Despite recent progress Moldova remains among the poorest countries in Europe. The long and medium term policy framework for the development of SMEs in Moldova is provided by the Small and Medium Enterprise Sector Development Strategy for 2012-2020, and the action plan for implementation overseen by the Ministry of Economy and Infrastructure. Corruption has been a major problem, and there has been a lack of resources invested into human resource development, findings from the literature review which were reinforced by the enterprises survey.

The survey identified that bribery and corruption were major issues, with a high proportion of the enterprises respondents, 87.3%, considering that bribery and corruption represent major obstacles for the development of enterprises in Moldova. High taxation levels, and high inflation were highlighted as being areas of concern for enterprises respondents as they discourage the growth of enterprises, while recent initiatives to reduce tax burdens were favourably received. While regulation in general was found to be inconsistently applied, and the law open to political interference, recent improvements to procedures for licenses and permits were recognized as positive by en-

terprises respondents. The survey highlighted the difficulty of accessing finance, for starting a small business. A majority of those surveyed identified the need for greater access to training, better education, and more support for business development in Moldova.

Social dialogue also emerged as a key concern. The constitution guarantees the right to establish or join a trade union. Trade unions have a strong presence in state-owned enterprises, but are less active and effective at negotiating for minimum wages and basic worker rights at smaller companies. The national level employers' organization, the National Confederation of Moldovan Employers, brings together 27 members including 15 employers' federations and associations, and 12 enterprises which operate in key sectors of the economy; however both the employers' organizations and workers representatives require strengthening. The survey among enterprises representatives found that 40.3% of respondents thought that government was only a little cooperative with its social dialogue partners in removing difficulties faced by enterprises. Around 40% of respondents thought that social dialogue was either little efficient or totally inefficient at national, sectoral and territorial levels.

Interviews with key informants supported these findings. In particular with respect to corruption and its effects on businesses the experts





mentioned many strengths of the existing legal framework, which at least formally, is committed towards the development of the business environment. The critical challenge in this respect is that the laws are not being applied as they should be. This happens mainly due to the suboptimal functioning of the justice system, which is controlled by a few interest groups and persons, making it difficult to assert that justice is correct, transparent and in favour of the business development. This situation generates a disappointment among business community representatives and many of them, particularly those representing small enterprises, either close their business or leave the country looking for better opportunities offered by other environments.



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