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# ► The Enabling Environment for Sustainable Enterprises in Moldova

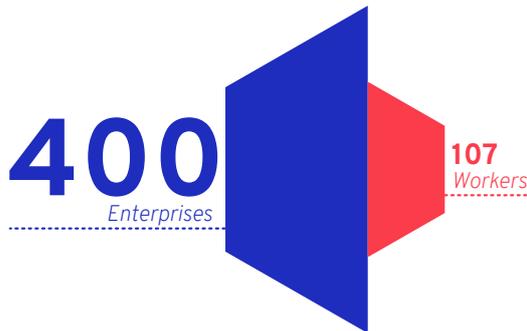
Summary Report - 2020





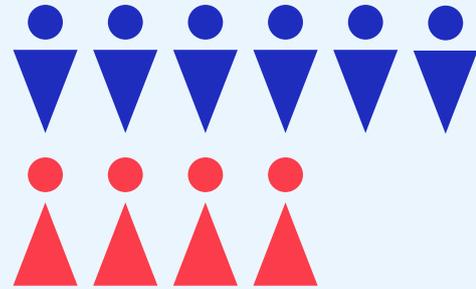
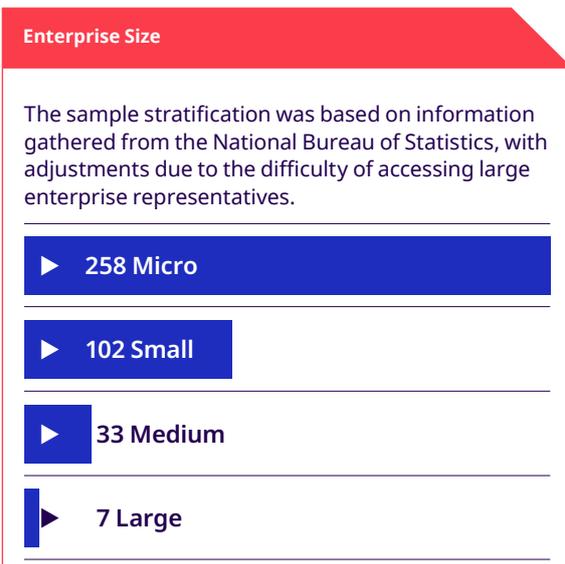
# 1. Introduction and Methodology

This document presents the main findings of the analysis of the Enabling Environment for Sustainable Enterprises in Moldova (EESE). The EESE methodology, developed by the International Labour Organization, combines secondary data, literature reviews, technical inputs provided by representatives of tripartite stakeholders, and an enterprise-level perception survey. In Moldova, the assessment was conducted between May 2018 and September 2019, and consisted of a secondary data review and two questionnaires, one involving 400 enterprises, and one targeting 107 employees. The charts provide an overview of the characteristics of the survey respondents.



64.5%

of enterprises in the survey have fewer than 10 employees

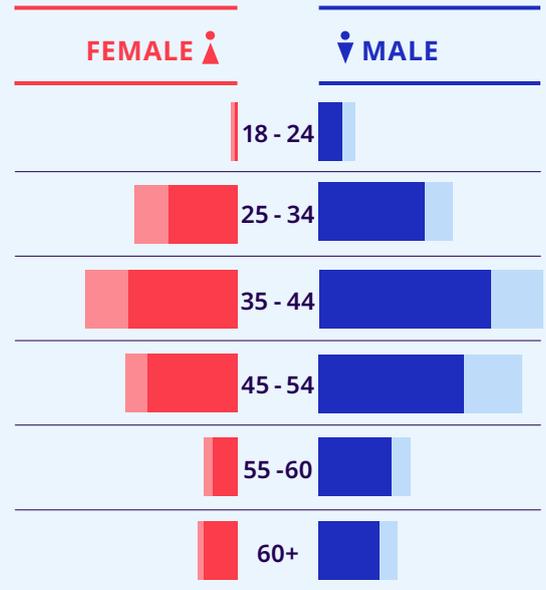


59%

of survey respondents were men

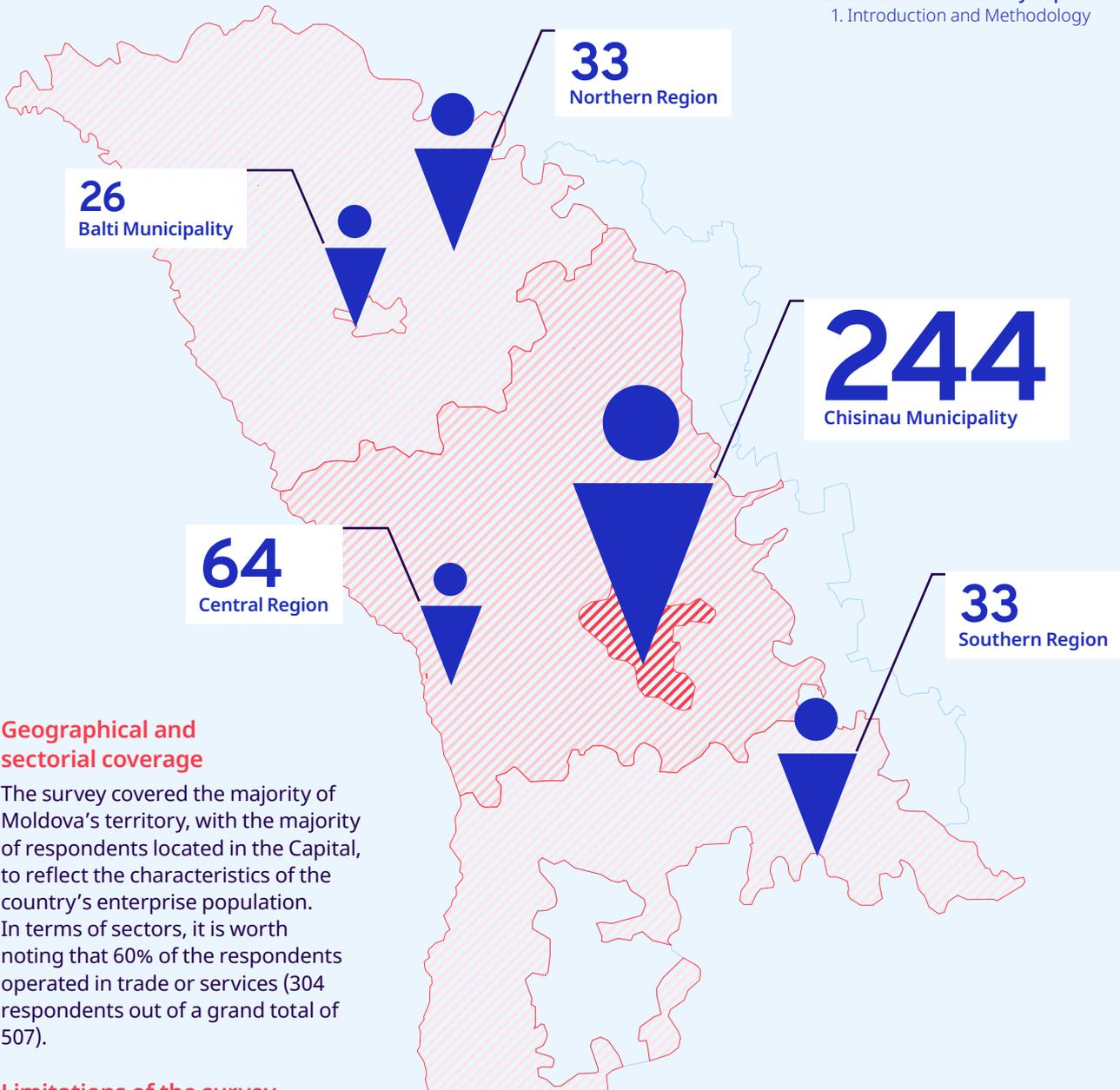
### Age, gender, and role of survey respondents

This table provides an overview of the age, gender, and role of respondents to the enterprise survey. It should be noted that the vast majority of those taking the enterprises survey were owners or CEOs, with only 5 respondents out of 400 not identifying in one of these two categories. The distribution by gender and age should be taken into consideration when reading survey results, as it can impact the respondents' outlook on the enabling environment.



### KEY

- ▶ Female - Owner
- ▶ Male - Owner
- ▶ Female - Manager/Other
- ▶ Male - Manager/Other



**Geographical and sectorial coverage**

The survey covered the majority of Moldova’s territory, with the majority of respondents located in the Capital, to reflect the characteristics of the country’s enterprise population. In terms of sectors, it is worth noting that 60% of the respondents operated in trade or services (304 respondents out of a grand total of 507).

**Limitations of the survey**

The most challenging issue related to the data collection process was the low willingness of a very big part of the companies’ representatives to participate in the survey, due to the uncertainty regarding the possible consequences of the response given. This could then result 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.

**35.1%**

of enterprises in the sample operate in wholesale and retail trade



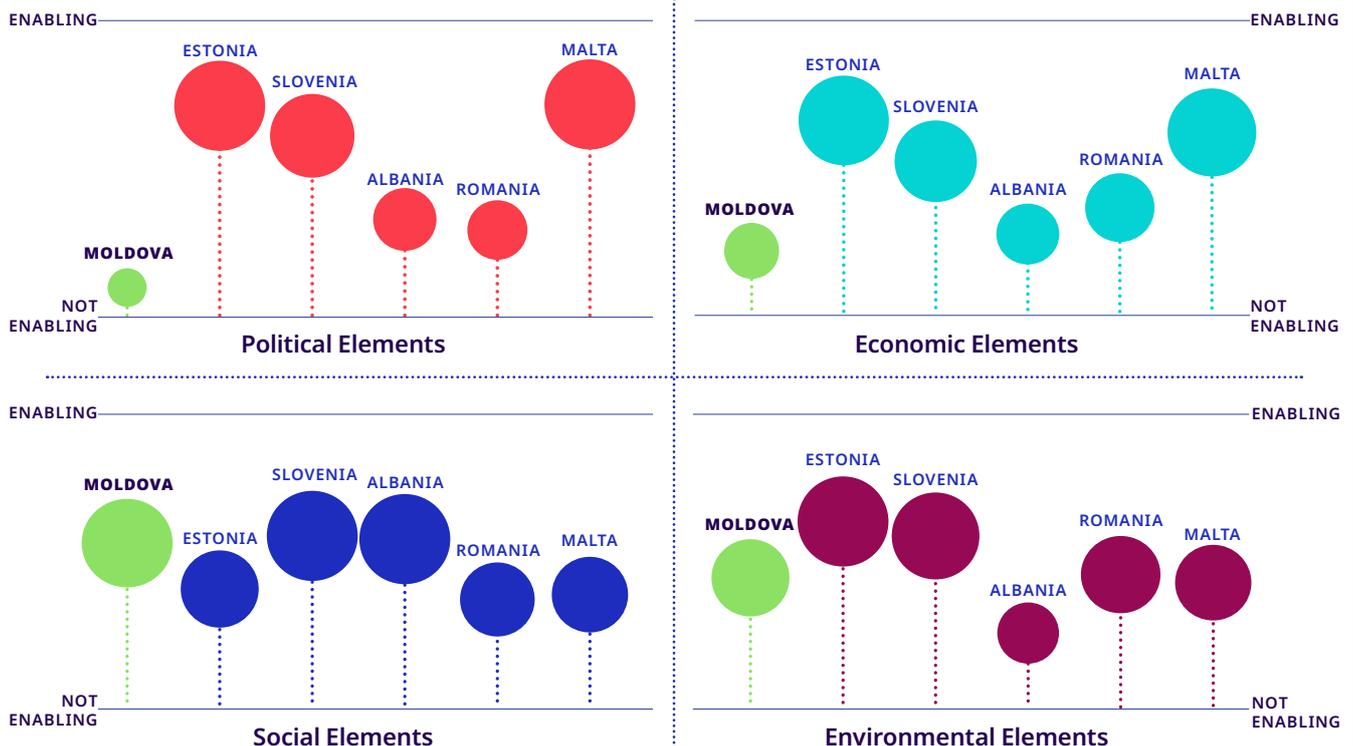
## 2. International Comparison

The assessment of Enabling Environment for Sustainable Enterprises in Moldova started with a review of secondary indicators, which were used to compare the situation in Moldova with that of five countries identified by ILO constituents in May 2018. In July 2018, a workshop was held during which findings from secondary research were presented and ten priority conditions for the 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. The results of the perception survey are presented in the next pages.

**10** priority conditions were selected for further research

### Aggregated key secondary indicators on the enabling environment

These charts were created by harmonizing and aggregating the main secondary indicators of the four elements of an Enabling Environment for Sustainable Enterprises. Taller bars and larger bubbles indicate better performance (i.e. a more "enabling" business environment). The list of indicators used for this comparison can be found in the full report on *The enabling environment for sustainable enterprises in Moldova*.





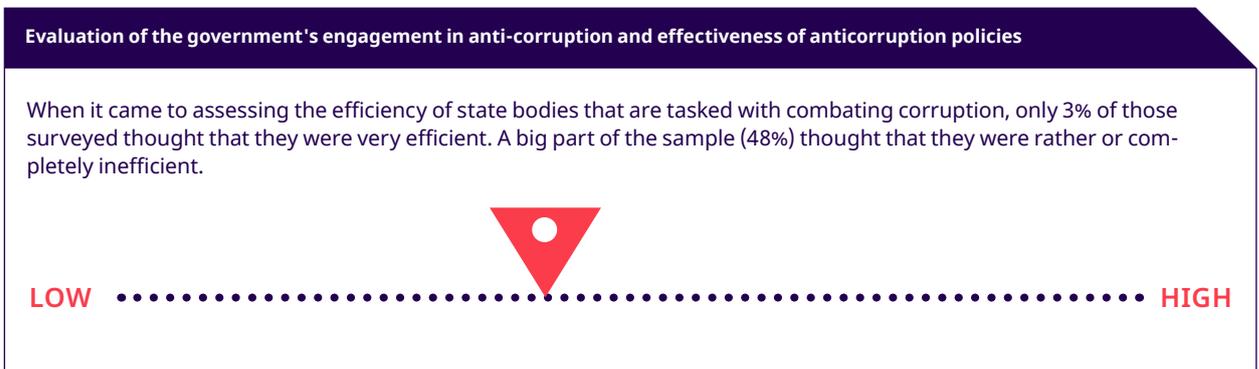
### 3. Political Elements

#### Good Governance

Moldova faces the challenges of building a healthy democracy and economy in the context of fragile institutions and limited human capital. Corruption has been a major problem since independence, which

combined with a contentious political environment, frequent government changes and low levels of economic growth, constitutes an obstacle to private sector development and investment. In 2016, the Anti-Corruption prosecution Office of Moldova was created

to investigate and prosecute corruption, bribery and abuse of power by public servants. Other reforms to the public integrity system include creating better reporting mechanisms, and new agencies to oversee the financial disclosures and conflicts of interest of public officials.

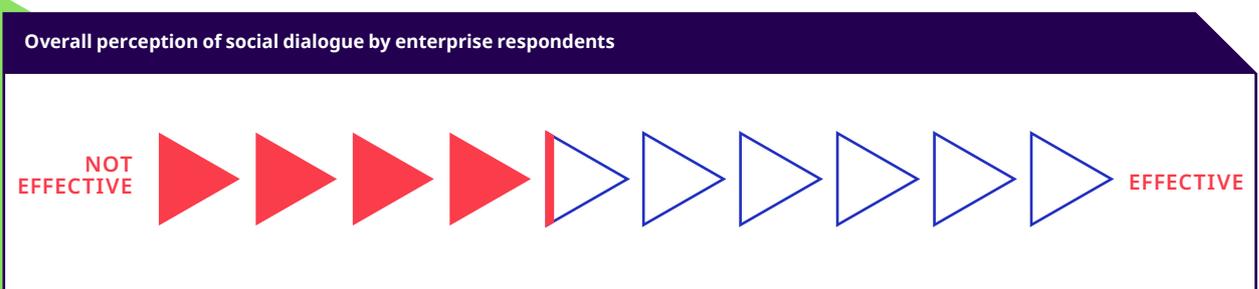


#### Social Dialogue

Labour relations in Moldova are regulated by the Labour Code of 2003 and managed by the National Commission for Consultations and Collective Bargaining, as well as similar

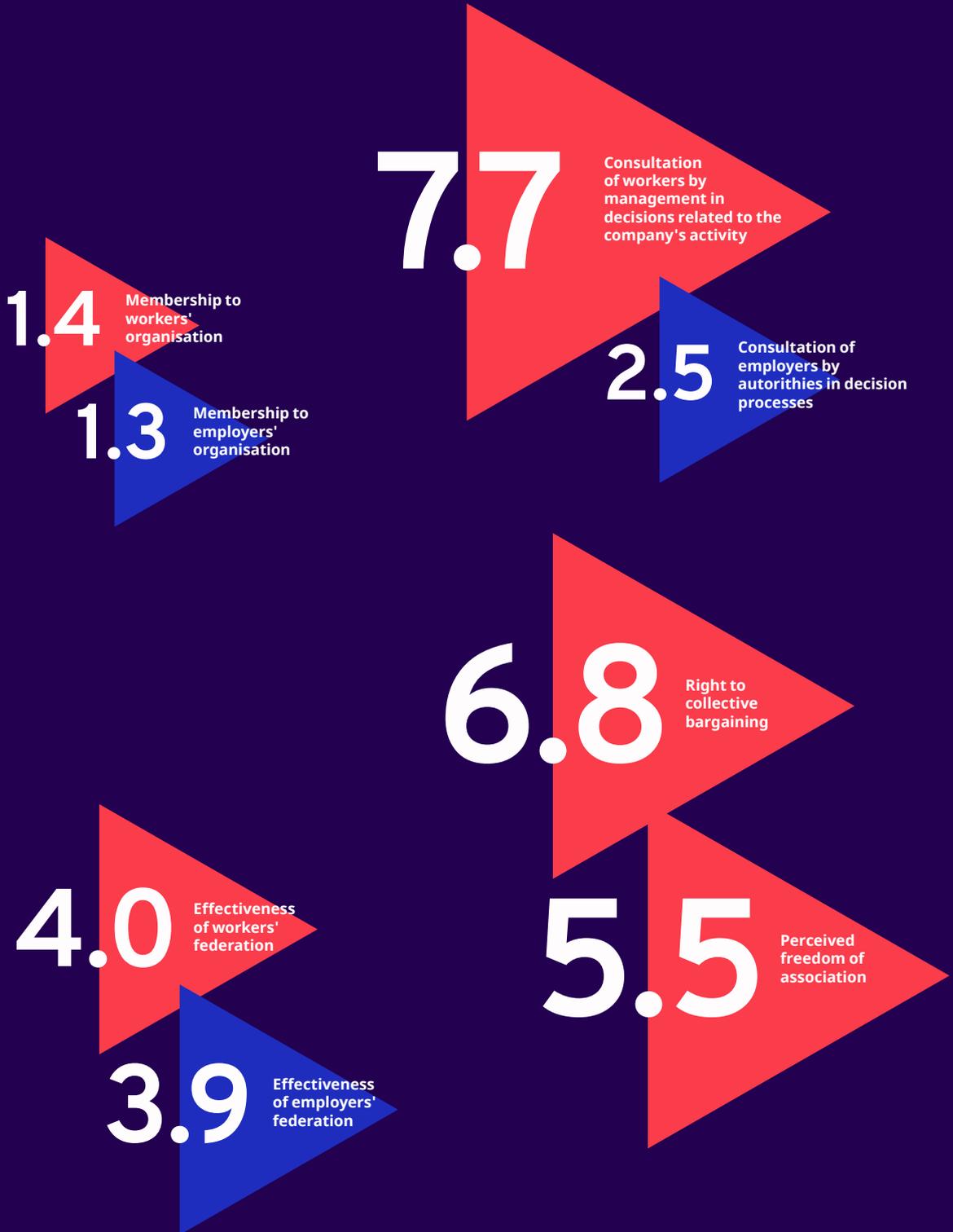
commissions at the branch and territorial level. Despite some significant progress in recent years, tripartite dialogue at the local level remains modestly developed. There is a lack of organised social partners. The weakness and absence of

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 level.



Social dialogue as perceived by employers and workers

These scores (from 0 to 10) represent the assessment provided by workers and employers of the different elements of social dialogue. The disaggregated survey questions and responses can be found in the full report on the Enabling Environment for Sustainable Enterprises in Moldova.



KEY

- ▶ Workers' survey results
- ▶ Employers' survey results

### Respect for Universal Human Rights and International Labour Standards

In Moldova, the legal framework provides for the protection of Human Rights, but the implementation of existing laws is problematic, and de facto discrimination sometimes persists. The main areas of concern include potential infringement of freedom of association, unfair trials in politically sensitive cases, allegations of torture and ill-treatment in detention, and protections for minorities.

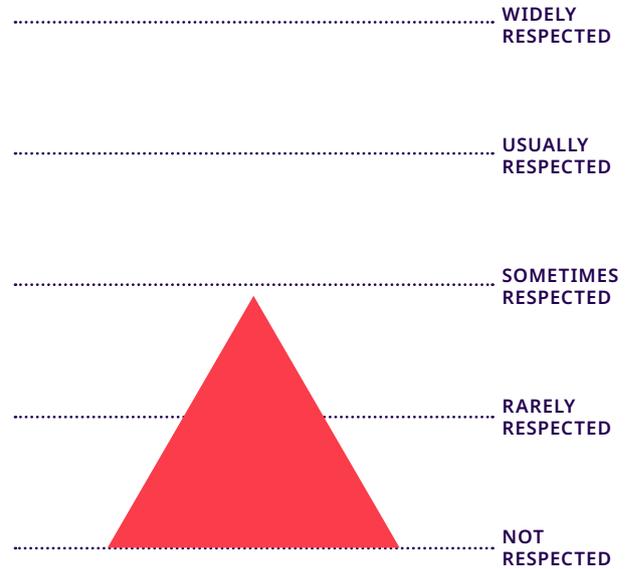
Moldova has adopted seven of the nine main human rights conventions, as well as all eight fundamental ILO Conventions on freedom of association and collective bargaining, and the abolition of child labour, forced labour and all forms of discrimination.

**31.3%**

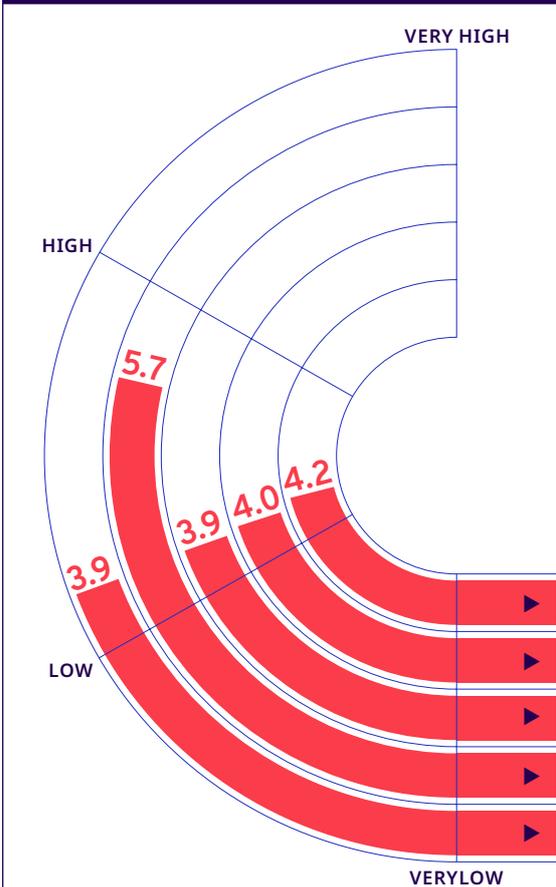
of respondents felt that human rights are usually respected in Moldova

#### Respect of Human Rights in Moldova, as perceived by enterprises

Average response to the question "To what extent do you think that human rights are respected in Moldova?"



#### Understanding and enforcement of International Labour Standards and Fundamental Principles and Rights at Work



This diagram summarizes the perception of enterprise respondents regarding the understanding, promotion and application of international labour standards and fundamental principles and rights at work in Moldova. Overall, the results are ambivalent, as enterprise representatives in many cases thought that International Labour Standards were only partly understood by the general public (41.5% of respondents), and not very well promoted by the government (47.8%). The perception about fundamental principles and rights at work were slightly more positive, in particular regarding their understanding by management, although respondents were less optimistic regarding the understanding of FPRW by the general public, and their application by enterprises in their operations. The scores shown in the figure (from 0 to 10) represent the weighed average of survey responses.

- ▶ General understanding of International Labour Standards
- ▶ Government promotion of International Labour Standards
- ▶ Citizens' understanding of Fundamental Principles and Rights at Work
- ▶ Management's understanding of Fundamental Principles and Rights at Work
- ▶ Enforcement of Fundamental Principles and Rights at Work by enterprises



## 4. Economic Elements

### Sound and stable macroeconomic policy and good management of the economy

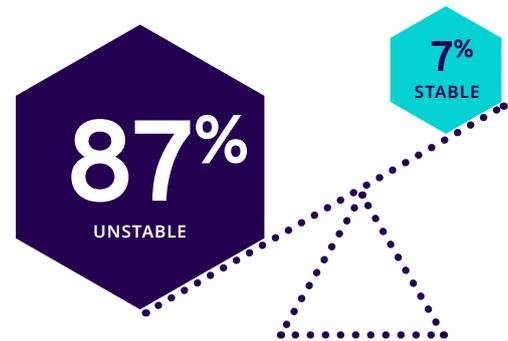
Since its independence in 1991, Moldova has transitioned from central planning to the market economy. The country today has a small and relatively open economy, with agriculture employing a third of its labour force. There are significant geographical disparities as 57% of all industrial enterprises are located in the capital.

Poverty rates are much higher and access to public services more difficult in rural areas. While growth is expected to continue the economy is still vulnerable to shocks, and structural reforms will be required for private sector growth and job creation.

**35.8%** of respondents think the tax burden is a constraint to enterprise development

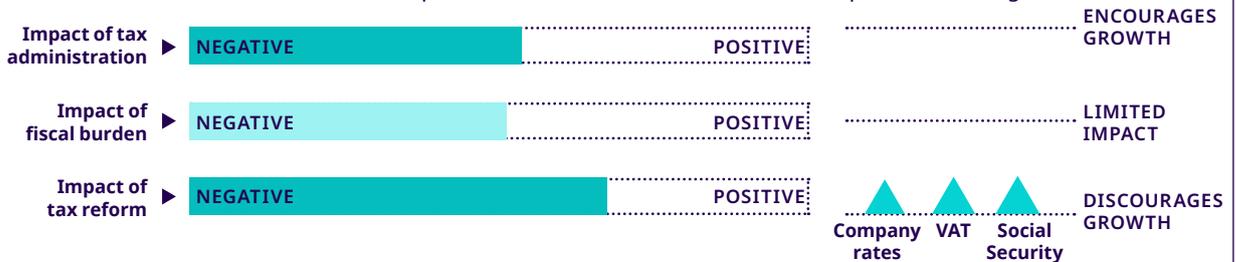
#### Overall perception of the economy

Enterprises were asked whether they thought that Moldova had a stable and well-managed economy. Only 0.3% of respondents was in total agreement, while 6% did not know.



#### Impact of taxation on enterprise development

The survey gathered information on the perceived impact of taxes on the development of Moldovan enterprises. This includes tax administration (accounting, reporting, payment processes, etc.), the fiscal burden (both direct and indirect), and the effect of recent tax reforms. Enterprises were also asked about the effect of specific taxes on growth.



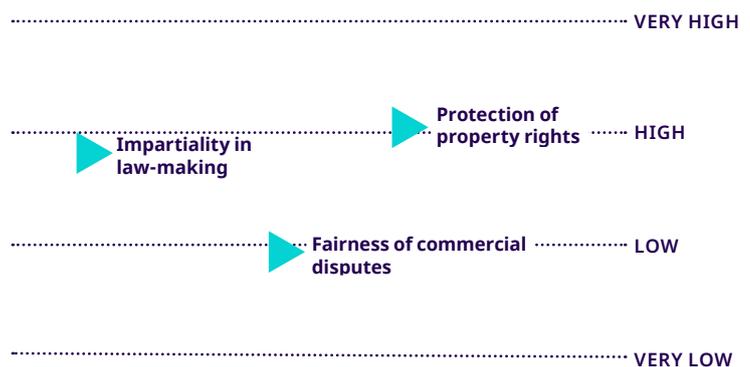
### Rule of law and secure property rights

Moldova is a civil law country, with its legal framework based largely on statutory law. Although the legal system has undergone major changes since the soviet era, there is a need to enhance the security of property rights, increase the transparency of property data, improve registration systems and modernize commercial law.

In particular, amendments to the national legal framework on intellectual property rights are being put in place, in order to harmonize with the EU legislation.

#### Perception of different elements of the legal system

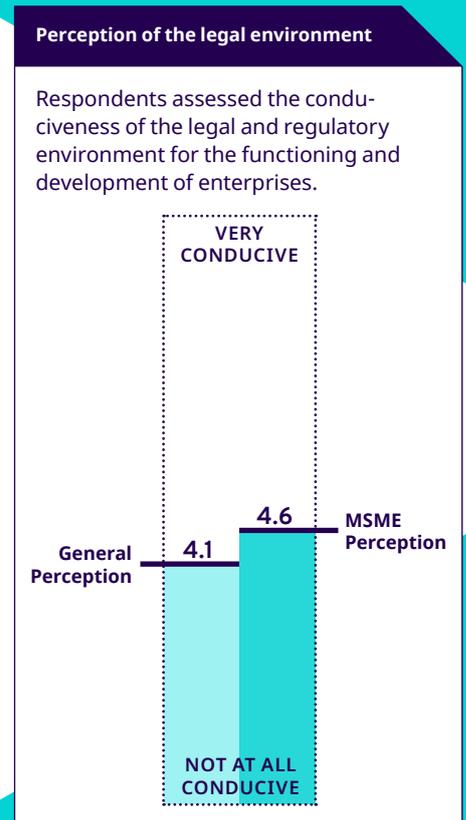
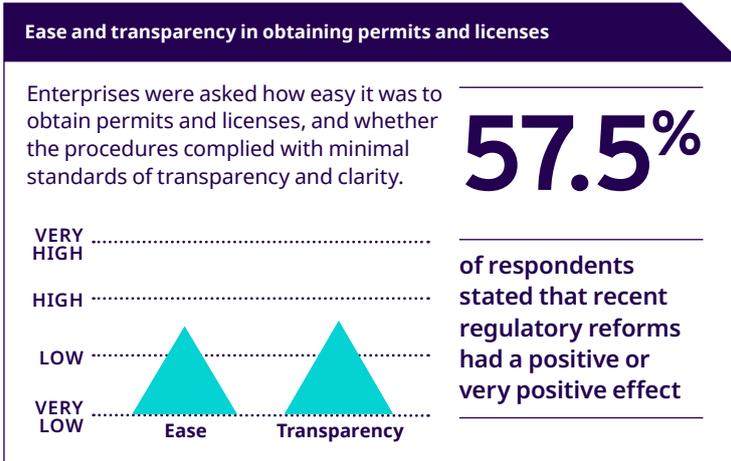
Enterprises expressed their view on the current status of the legal system, and in particular on whether laws are formulated without interference, whether commercial disputes can be solved fairly, and whether property rights are respected.



### Enabling Legal and Regulatory Environment

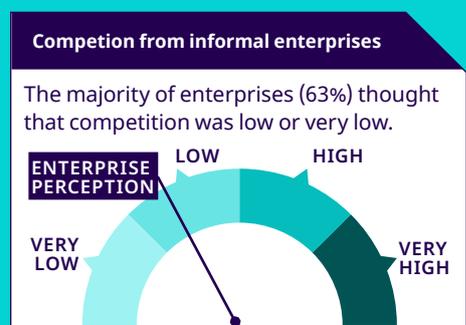
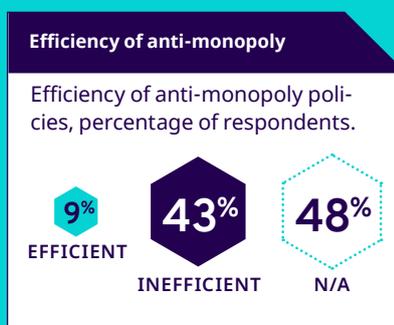
Over the years the Government of Moldova has taken steps to streamline and simplify the process of business registration and licensing, lowered tax rates, and strengthened tax administration. Starting a

business became easier in 2014, when the minimum capital requirement was abolished, and an electronic system made paying taxes easier for companies. A new 2018-2020 action plan for business regulatory framework reform, is currently being implemented.



### Fair competition

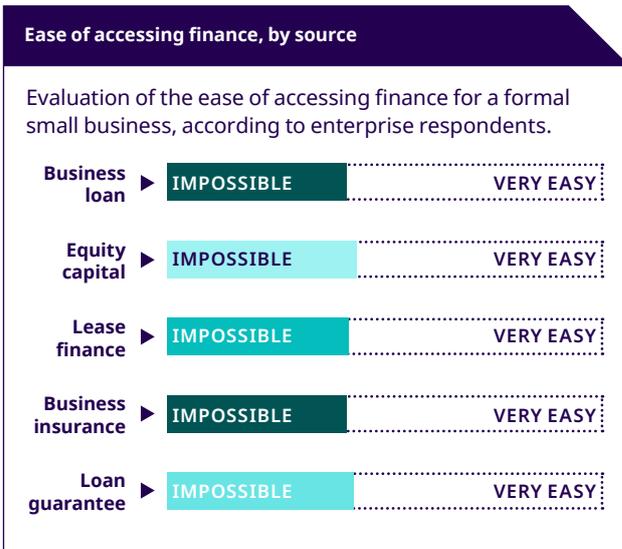
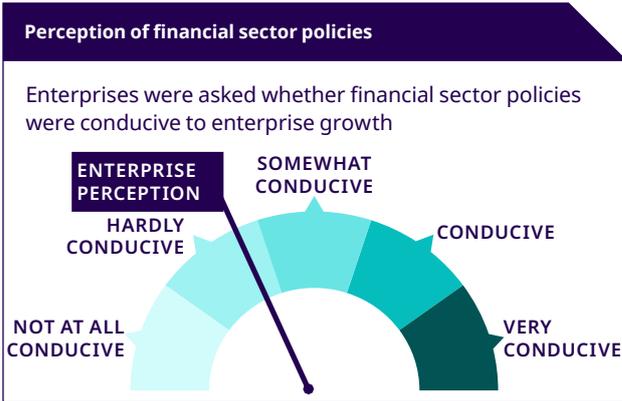
The Competition Council is the institution in charge of enforcing competition and state-aid provisions in Moldova. Despite the legislation, there have been allegations of State Owned Enterprises having an advantage.



**58.3%**

of respondents never participates in tenders





### Access to financial services

Financial instruments of different types are still evolving, and the securities market in Moldova is underdeveloped. Local commercial banks provide mostly short-term, high-interest loans and tend to require significant collateral, which reflects the high perceived economic risk in Moldova. Generally, credit activity is mostly focused on large corporations; and banks have few clients from small and medium-sized enterprises. These enterprises, then, have to resort to other sources to finance investment.

## Youth

are the ones who have most difficulty accessing finance, according to 32% of respondents

## Savings

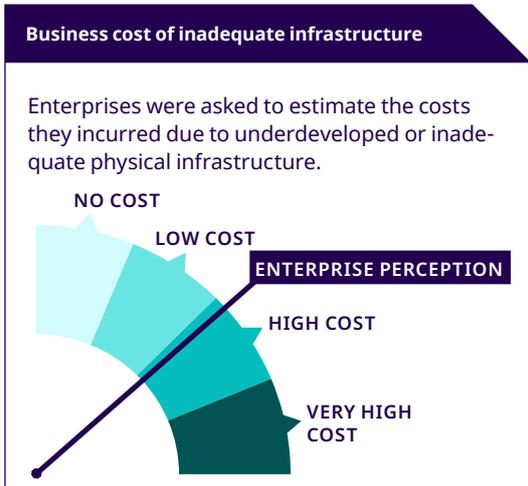
are the main way to fund new business ideas for 59% of respondents

## Collateral

is the biggest barrier when applying for a loan for 36% of enterprises

### Physical infrastructure

Physical infrastructure suffers from a disparity in quality between Chisinau and the rest of the country. Moldova's railroads have not been upgraded since the Soviet era, are not electrified, and have limited speed and load weights. Thus, the majority of goods transport happens on roads, which are often muddy and impassable during the winter. Access to regional ports is becoming increasingly important, as the majority of trade is handled by ports in Ukraine and Romania.



### Quality of infrastructure according to enterprises

These scores represent the average evaluation of the quality of infrastructure, ranging from 0 (very poor) to 10 (very good).

**7.4**  
Telecommunications

**2.8**  
Roads

**5.8**  
Airports

**4.4**  
Railways

**6.0**  
Electricity

**4.9**  
Water



## 5. Social Elements

### Education, training, and lifelong learning

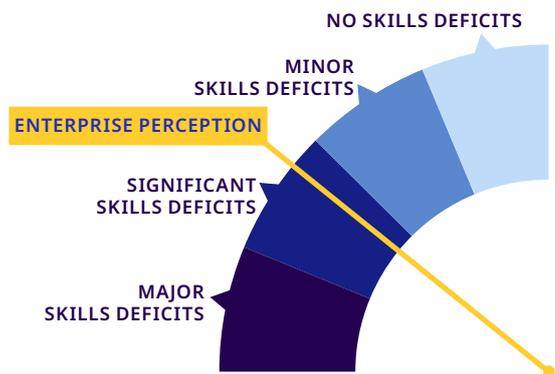
Moldova is affected by low labor productivity, which reflects an incomplete transition from a planned economy dominated by agriculture and high informal employment. The lack of human capital restricts enterprise growth, and the vocational training system is not aligned with the needs of the market. The survey sought to understand the impact and main causes of this skills mismatch.

**68%**

of enterprise respondents cannot find the skills they need

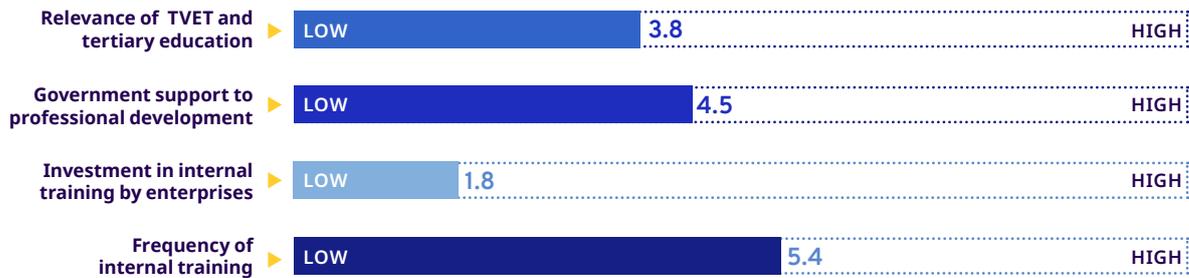
#### Availability of skilled workforce

Enterprise respondents were asked about the availability of skilled workforce in the country, and the quality of the educational system. This diagram summarizes their response, and shows the extent of the skills mismatch in Moldova.



#### The causes of the skills mismatch, as perceived by enterprises

The assessment dug deeper into the causes of the skills mismatch, by measuring the enterprises' perception on whether the TVET system responds to the needs of the private sector, whether there are government-funded professional development programmes, the investment that enterprises make on training their staff, and the frequency of these internal trainings.



#### Main reasons why enterprises do not invest in training

Given the low level frequency and investment in internal training, the survey collected information on the key barriers that enterprise face when providing training to their employees.

