

THE ESTIMATION OF TRENDS IN BUSINESS DEVELOPMENT IN THE REPUBLIC OF MOLDOVA

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Abstract

For the advancement and prosperity of an economy a highly developed and innovated business environment is required. In this respect the State must issue some regulations in order to establish certain standards that would allow the opening of new opportunities for business environment, encouraging entrepreneurs. The current study highlights modern trends in business development of the Republic of Moldova and exposes some recommendations for its improvement. During the research there have been used traditional research methods of quantitative and qualitative analysis, comparative analysis and logic. Preference was given to monographic study method applying the elements of observation, selection, induction and deduction. The investigations allow us to conclude that the basic pillar for development and advancement of a State under different aspects is business environment. There are many problems and constraints that hinder business development in the Republic of Moldova, but in spite of them the positive dynamics is observed in this sector. In order to increase business efficiency there must be a joint collaboration between the government, the civil society and business owners.

Key words: *businesses, business environment, competition, constraints, entrepreneurs, regulations*

INTRODUCTION

One of the basic pillars for the development and advancement of a State under different aspects is the business environment. It is the driving force of the prosperity and economic growth of the country and its analysis is extremely important in order to strengthen the efforts of businesses. At the national level, strengthening the business environment is a priority. In order to overcome barriers to entrepreneurial activity, to make changes and to improve the situation a detailed and comprehensive analysis of the business climate is required. Current business environment is characterized by unreasonable financial and time costs that considerably exceed the costs in developed countries, directly influencing the national economic growth, which is based on the export of production with high added value, and discouraging loyal competition oriented towards productivity and innovation. Today the business environment is very dynamic, due to the changes that occur within it, especially under the impact of the development of science and technology. A

company may engage in normal and efficient activities only if it knows the environmental factors and the changes involved, continuously adapting to their requirements. The national activity involves a degree of uncertainty due to certain factors that can be found out with difficulty because of the presence of a series of uncontrollable elements.

In economic literature there were conducted multiple studies on the dynamic and change of business environment, highlighting its structural, branch and financial aspect.[3,6,7,9,10]

According to the National Development Strategy Moldova 2020, our country aims to improve the business environment so that by 2020 the costs and risks associated with each stage of the life cycle of the business to be lower than in the countries in the region, which is governed by free competition.[5] The impact of improving the business environment will be expressed by investments increase, exports increase, increasing number of reliable companies motivated to implement innovations, able to create quality jobs, to ensure high productivity and competitive

export-oriented production, which is supported by the advancement of Moldova in international rankings Doing Business, Global Competitiveness Index, Economic Freedom Index and Logistics Performance Index, exceeding the average level in the region. Optimizing the procedures and the time necessary for an economic operator to launch, conduct and close a business through the implementation of innovational approach to business regulation, such as digitization process of providing public services, and shifting emphasis from inspections to counseling, inspections being made on the basis of perceived risk, will significantly improve the business environment, reducing at the same time unnecessary administrative costs and thus ensuring economic development. Besides direct stimulation of business, investment and foreign trade, process optimization through innovative approaches in public service provision will create a base and a significant impetus for innovation and new jobs in the private sector.[4]

MATERIALS AND METHODS

As theoretical support there were used publications in journals in the field and the materials from national and international conferences. In order to reveal the studied matter there were conducted researches based on the data of the National Bureau of Statistics. This statistical information was used for the quantification of the evolution of the number of enterprises by types of activities, highlighting changes in the dynamics of the number of employees in companies, the analysis of sales revenues and of the financial results of all types of enterprises as well as of small- and medium-sized enterprises from our country. In order to investigate the actual conditions and the specificity of the business environment various methods of economic analysis were used.

RESULTS AND DISCUSSIONS

The Republic of Moldova is an agrarian-industrial country. Agriculture is one of the traditional pillars of Moldovan economy. But a study made by the World Bank shows that

agriculture in Moldova is inefficient, the sector records low productivity, investments in the field are small and the costs are exaggerated. The sector's productivity is two times lower than the European average.

World experience and the practices of forming powerful national economies show that innovative businesses are the main structural element that contributes to the economic development of the country through the implementation of innovations, promotion of technical and scientific progress and strengthening national competitiveness in the international market.

Entrepreneurs are those who boost the economy through their active and innovative behavior. Only entrepreneurial spirit of a person, namely his determination, perseverance, desire to win, initiative, responsibility, orientation towards opportunities, optimism, persistent problems solving, creativity, innovation, teamwork, management skills and many other qualities, develop a business and a respectively a sector of the country.

Based on the mentioned arguments, innovation and entrepreneurship in the agricultural sector of the Republic of Moldova remain one of the most important and current studied topics.

Being geographically close to the heart of Europe, Moldova is still far from European values, including the business environment. Although, in general lines our country has progressed over the years in ensuring favorable conditions for an incentive entrepreneurship, it remains far behind concerning the ease with which a profitable business can be developed, maintained and closed, to be able to attract entrepreneurial people from other countries to launch in our country. Moreover, we lose our national talents, some Moldovans, who decide to emigrate from the country, put in motion successful business projects later.

The Report of World Bank Group "Doing Business 2016, which draws great attention from the public and authorities, with each issue, and that exposes the totals at what has been done until now and what remains to be done in the future for business environment,

tells us once again how much Moldova has to work to be at least at a level close to Georgia, Latvia, or even Macedonia, in ensuring a favorable environment for business. [2]

According to the report, Moldova is on the 52th position of 189 countries included in the ranking according to the annual report "Doing Business 2016". Situated between the Russian Federation (51st) and Israel (53rd), our country has climbed 11 positions since the previous year. The good thing is that our country ranks 21st in chapter registering property and 26th in starting a business. And the worst position of Moldova is in chapter issuance of a building permit (170th). To get it a person must go through 27 legal procedures within a period of 276 days. Also in our country it is difficult to get electricity connection (104th), it requires seven procedures within 113 days. According to the conclusions of the World Bank, this year,

Moldova has been marked by two reforms that have positively impacted the business. Thus, our country has facilitated the process of starting a business by eliminating mandatory inspection of the territorial State Tax Inspectorate. The Republic of Moldova has improved insolvency proceedings by introducing a licensing system for insolvency administrators. The first positions in the ranking belong to Singapore, New Zealand and Denmark and the bottom of the ranking there are Eritrea, Libya and South Sudan.[2]

In order to explore the entrepreneurship at the country level, especially in Moldova, we need to identify the number of business companies that operate throughout the country in a given period of time. Thus in the following table there are the data on the number of economic agents registered in Moldova, depending on the types of activities they carry out, during the years 2009-2014 (table 1).

Table 1. Number of enterprises in Moldova by types of activities

Types of activities	Years					
	2009	2010	2011	2012	2013	2014
Total activities	44,633	46,704	48,541	50,681	52,246	53,738
Agriculture	2,325	2,384	2,464	2,538	2,715	2,956
Fishery	80	79	76	84	83	81
Mining and quarrying industry	104	115	116	112	116	115
Manufacturing industry	5,254	5,135	5,039	5,069	5,102	5,010
Electricity, gas and water	190	221	225	287	336	348
Constructions	2,595	2,614	2,686	2,788	2,770	2,923
Trade, transport and machinery repairing	18,330	19,095	19,837	20,494	20,867	20,991
Hotels and restaurants	1,311	1,424	1,516	1,667	1,711	1,745
Transports and communications	3,040	3,173	3,281	3,373	3,465	3,559
Financial activities	701	800	857	934	977	1,041
Real estate transactions	6,727	7,422	7,985	8,627	9,134	9,759
Public administration	-	-	-	14	14	14
Education	304	331	352	366	387	400
Health and social care	661	723	782	876	969	1,070
Other activities	3,011	3,188	3,325	3,452	3,600	3,726

Source: developed by the author based on NBS.

During 2009-2014 the total number of enterprises in Moldova increased from 44000 to 54000, which demonstrates the improvement of the business environment and the increase of entrepreneurship. We can see that in the given period there increased the number of enterprises that practice such activities as agriculture, from 2,300 in 2009 to 2,900 in 2014; fishery - from 80 enterprises to 81;

mining and quarrying - from 104 to 115 companies; electricity, gas and water - from 190 to 348 companies; the entities that are engaged in construction and trade, from 2,500 and respectively 183,300 in 2009 to 2,900 and respectively 21 thousand. The number of hotels and restaurants has also increased from 1.3 thousand to 1.7 thousand businesses; the entities dealing with transport and

communications and practicing financial activities from 3,000 and respectively 701 entities in 2009 to 3,600 and respectively 1,041 in 2014; the entities dealing with real estate transactions - from 6.7 thousand to 9.4 thousand in the period under review; the number of entities in the education sector and the health and social assistance sector has increased from 304 and respectively 661 businesses in 2009 to 400 and respectively 1,070 in 2014.

In 2014 Moldova 40% of the total number of enterprises are appointed in the wholesale and retail trade, repair of motor vehicles,

motorcycles, household and personal goods, followed by 17% of entities dealing with real estate transactions, 10% are in the field of manufacturing, transport and communications and mining -7% each; 5% for enterprises with agricultural activities and construction and 3% for hotels and restaurants.

According to the company size, the enterprises may be divided into 4 categories: large enterprises, medium, small and micro - enterprises. According to the territorial aspect and the size the total number of enterprises registers growth rates in the Republic of Moldova (table 2).

Table 2. The total number of businesses in the Republic of Moldova by regions by their size

Years	Enterprise's size	Total on the Republic	Chisinau Mun	North Region	Centre Region	South Region	T.A.U. Gagauzia
2009	Large	975	647	131	108	62	27
	Medium	1,589	835	305	246	134	69
	Small	8,264	5,033	1,228	1,202	545	256
	Micro	33,805	22,861	3,828	4,581	1,623	912
	Total	44,633	29,376	5,492	6,137	2,364	1,264
2010	Large	1,073	725	137	126	56	29
	Medium	1,587	856	306	233	124	68
	Small	9,132	5,542	1,365	1,337	615	273
	Micro	34,912	23,717	3,867	4,843	1,593	892
	Total	46,704	30,840	5,675	6,539	2,388	1,262
2011	Large	1,204	831	137	141	64	31
	Medium	1,502	841	269	214	115	63
	Small	9,194	5,653	1,350	1,329	585	277
	Micro	36,641	24,802	4,120	5,072	1,717	930
	Total	48,541	32,127	5,876	6,756	2,481	1,301
2012	Large	1,237	867	142	137	58	33
	Medium	1,538	897	249	233	108	51
	Small	9,570	5,890	1,410	1,378	602	290
	Micro	38,336	25,926	4,190	5,396	1,813	1,011
	Total	50,681	33,580	5,991	7,144	2,581	1,385
2013	Large	1,356	965	146	141	60	44
	Medium	1,557	902	262	236	105	52
	Small	9,874	6,037	1,432	1,476	632	297
	Micro	39,459	26,602	4,320	5,670	1,858	1,009
	Total	52,246	34,506	6,160	7,523	2,655	1,402
2014	Large	1,403	990	162	151	57	43
	Medium	1,621	964	258	240	103	56
	Small	10,099	6,133	1,464	1,570	643	289
	Micro	40,615	27,342	4,484	5,864	1,961	964
	Total	53,738	35,429	6,368	7,825	2,764	1,352

Source: developed by the author based on NBS.

During the analyzed period the biggest part of enterprises is of micro size, also we can conclude that most of the businesses are located in Chisinau municipality, followed by the Central Region, then by North, South and ATU Gagauzia. We can also see that in all

regions micro-businesses predominate, followed by small businesses, medium and the large ones are the last. Analyzing the structure of enterprises by their size in Chisinau in 2014 we can notice that most of the economic agents that operate within the capital are

micro enterprises that form 77% of the total number of enterprises, followed by 17% of businesses of small size. We can also note that medium-sized businesses and large businesses registered in Chisinau in 2014 constitute 3% each of the total number of enterprises in the region.

The SME sector plays an important role in ensuring the stability of economic development, increased mobility and adaptability of the national economy to the changing conditions of both internal and external character; it is also a diversification factor of the economy. The presence of a well developed SMEs sector in the economy is particularly important in terms of the structural reform of the economy and the increased structural unemployment which accompany this process. [8]

Small and medium enterprises sector represents about 97.4% of total enterprises. In 2014, the number of small and medium enterprises was 52,300, with 1,400 businesses (2.8%) more than in 2013. Mostly, small and medium enterprises operate in trade, constituting in 2014 about 20,500 companies, or 39.2% of small and medium enterprises. In manufacturing industry 4,800 of small and medium enterprises operated or 9.1% of all small and medium enterprises.

The competitiveness of the SME sector depends to a large extent on the implementation of innovative and creative activities. The innovation policy is currently implemented with a minimal impact on the SME sector development due to the weak cooperation contacts between public authorities that are responsible for the innovation policy, the private sector, universities as well as other factors in the Republic of Moldova. SMEs need to cover 50% of the costs associated with the innovation development. Their support structures in the innovation implementation are insufficient. The Republic of Moldova continues to face a number of issues related to the intellectual property. Intellectual protection costs and SMEs managers' insufficient awareness of the way the intellectual property system functions are the main factors that hinder its capitalization. The

ongoing free supply of the pre-diagnosis service type, which is an intellectual property audit, will enable SME managers to optimize the use of the available intellectual potential. [8]

However, the ability of SMEs to cope with the competitiveness at the European level is still limited. According to the Global Competitiveness Report 2015-2016, Moldova is at the first stage of development (there exist three of them). According to the Global Competitiveness Index 2015-2016, Moldova took place 84 (out of 140 countries), having improved its position by two points compared with the Global Competitiveness Index 2014-2015. [11]

Optimizing the procedures and the time required by an economic operator to launch, conduct and close a business through the implementation of some innovational approach in business regulation, such as digitization of the process of delivering public services, and by shifting the emphasis from inspections to counseling, the inspections being made on the basis of perceived risk will significantly improve the business environment, reducing at the same time unnecessary administrative costs and implicitly will ensure the economic development. In addition to direct stimulation of business, investment and foreign trade, the optimization process through innovative approach in public service provision will create a base and a significant impetus for innovation and new jobs in the private sector.

The main barriers for SMEs in standardization are the following: difficulties in accessing relevant information, problems with standards understanding and application, high costs of the standardization process and, as a result, limited participation in standardization activities. The available certification capacity is insufficient, which provides exporting companies with little choice and external certification services are very expensive.

The most outstanding "asset" of a company is the human resource. The other resources of the organization can be used only by means of human resource.[1]

In the period 2009-2014 the total number of employees in all types of enterprises of

Moldova registered by statistical bodies, marked a pronounced downward trend (Fig. 1). In the years 2012-2013 there was a slight annual increase in the number of employees per total enterprises as a result of positive developments attested in large enterprises. The number of employees who worked in the small and medium enterprises during the reference period was 291,700 people, constituting 56.2% of the total number of employees of enterprises.

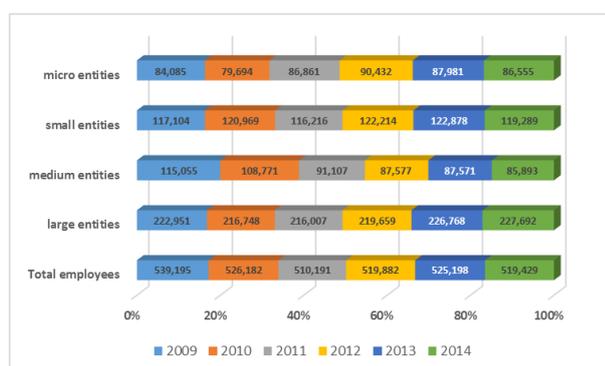


Fig. 1. Evolution of the number of employees in Moldovan enterprises, individuals
 Source: developed by the author based on NBS

The small and medium enterprise sector in 2013 had a decrease in the number of employees compared to 2012 by 0.6 pp. 2014 was noted by lowering by 1.1% in the number of employees in all types of enterprises, only large enterprises stating a slight increase of 0.4% in the number of employees over the previous year. The number of employees on average per enterprise in 2014 was 6 people, as in the years 2012 and 2013.

The distribution of the number of employees in companies of various sizes showed that the highest share of employees is engaged in small enterprises (40.8%); 29.4% in medium-sized enterprises, 29.6% in micro enterprises - of all the employees of small and medium enterprises sector. In 2014 all types of businesses from small and medium enterprises sector have registered a decline in employment. When referring to the evolution of the number of employees by types of activities in the years 2013-2014, most enterprises have registered a decline of employees, except such sectors as: electricity, gas and water; real estate transactions and

other activities.

Between the years 2010-2014 the sales revenues of enterprises are characterized by upward trend after the decline in 2009 (Fig. 2). So, in 2014, sales revenues increased by 13% over the previous year. At the same time, small and medium enterprises sector in 2014 compared to 2013 charged 8.1% higher revenue.

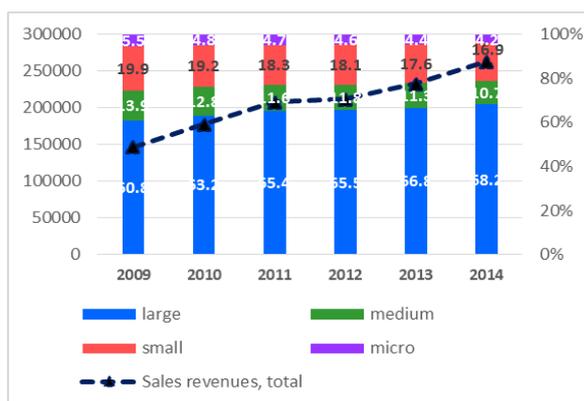


Fig. 2. The dynamics of sales revenues in Moldovan enterprises, millions MDL

The revenues in the average enterprise in 2013 amounted to 1,521 million lei or by 43 thousand lei (2.9%) more than in 2012. In 2014 the sales revenues of small and medium enterprises totaled 83,650 billion lei or 31.8% of total sales revenue in the economy. The average enterprise sales revenues in 2014 amounted to 1,599 million lei. Sales revenues in the small and medium enterprises on average per an employee in 2013 amounted to 259,400 lei or by 16 thousand lei (6.6%) more than in 2012. In 2014 sales revenues of small and medium enterprises on average per an employee reached 286,8 thousand lei, which exceeds by 27,4 thousand lei (or 9.5%) the level reached in 2013.

The economic activity of the company is completed when it obtains useful effects materialized in a number of goods and services able to satisfy social needs after having passed the stage of the exchange by currency. In terms of value the economic activity effectiveness is the difference between cash income and expenses within a given period. In 2014 the financial result before taxation (profit, loss) of the enterprises of the Republic of Moldova registered the

lowest level during the past five years, indicating values below 2009 (table 3). Since the beginning of 2012 the amount of profits before taxation has reduced considerably if compared with the period 2007-2011, except 2009. The evolutions in the last three years have coincided with changes in the tax code, which, since 2012, have canceled 0% rate on reinvested profit tax in economic activity for businesses and have established a new rate of 12% but with certain exceptions for some businesses.

Table 3. The analysis of the financial result before taxation of the enterprises of the Republic of Moldova, millions MDL

	2009	2010	2011	2012	2013	2014
The financial result before taxation (profit (+)/losses (-), total	3,666.9	13,169.8	14,427.5	4,706.6	4,131.0	3,660.8
including by the types of enterprises:						
large	1,423.7	7,712.9	9,247.3	3,622.0	2,122.5	648.0
medium	725.6	1,931.5	1,972.1	393.6	657.1	1,045.0
small	1,357.5	2,842.4	2,697.7	715.9	1,267.3	1,765.7
micro	160.1	683.0	510.4	-24.8	84.2	202.1

Source: developed by the author based on NBS

In 2014 small and medium enterprises achieved a profit before taxation increased by one billion lei compared to 2013. The largest profit was obtained from trade, while hotels and restaurants have worked in loss during the last two years.

The amount of obtained profit before taxation of small and medium enterprises in 2014 amounted to 3,0127 billion lei, or by 1,0042 billion lei (49.9%) more than in 2013. The highest profit was obtained from trade activity, while hotels and restaurants have worked in loss over the past two years. The companies operating in wholesale and retail trade are the most profitable in the country. According to the National Bureau of Statistics, small and medium enterprises active in this field had the highest sales revenue last year – 36,3 million lei, which represents 46.9% of total sales of small and medium enterprises.

The economic activity of enterprises has a

direct impact on the environment. Simultaneously, rigid regulations aimed at protecting the environment in the Republic of Moldova also require some compliance costs for doing business. Although in terms of sustainable development such costs are justified, however, there is a risk for the business environment to perceive them as excessive. In this respect, the new regulations will be focused on environmental impact assessment by ensuring that the administrative burden is distributed equitably on businesses without distorting market mechanisms and without creating preconditions for unfair competition.

Competition is a vital factor for boosting the Moldovan economy, improving the business environment and increasing its attractiveness for both launching new businesses and developing them. In order to ensure effective and fair competition, the Republic of Moldova aims to develop and implement a national program on competition and state aid by taking the European best practices to prevent, suppress and limit the anti-competitive activities of operators and public authorities. Creating new enterprises should be ensured by promoting success stories in the field of entrepreneurship, by supporting the entrepreneurial spirit.

The efforts should be focused on developing the capacity of quality infrastructure meant to facilitate exports and encourage domestic enterprises to implement advanced technologies, inclusively in agriculture, so as to ensure consumption safety. The implementation of reforms in healthcare regulation and management can improve the yield and efficiency in the Republic of Moldova.

The quality of the business environment affects investment activity and economic development through administrative and compliance costs and risks associated with opacity regulations and discretionary application of sanctions. Promoting smart regulation and a horizontal approach, with the establishment of interoperable standards in the field, will create conditions to seize all opportunities for business development.

CONCLUSIONS

The analysis of the business environment in the Republic of Moldova allows us to conclude that lately there has been a positive dynamics of development, but the quality of the sector remains low. The business environment is very vulnerable to the political situation in the country. The most important problems and constraints that hinder business development in Moldova can be eliminated through joint efforts of the government, the civil society and business owners.

In order to increase the efficiency of business environment are required: - depolitization and accountability of government institutions through their systematic monitoring by civil society; - the eradication of corruption in the state institutions through the transparency of procedures for issuing permissive documents for business, implementing ICT solutions in providing various public services; - ensuring a transparent regulatory framework for private initiatives so that the greatest burden is not be carried in the legal business; - simplification of fiscal and customs administration, which will lead to boosting business environment; - ensuring of free and fair competition in all sectors of economy by removing barriers of entering to new markets for large and innovative companies, full and efficient functioning of the Competition Council, reducing the share of informal economy; - modernization of physical infrastructure through the efficient use of the road fund, increasing budget allocations for upgrading the local infrastructure which will stimulate both foreign and domestic private investment growth; - development of vocational education and training system by a better correlation of it with the economic realities and the demand for labor; - simplification of company restructuring and the replacement of the most unproductive employees with the best, and it would boost investment and business environment of our country; - increasing the efficiency of the system of public procurement by improving the prioritization procedures of public expenditures, removing barriers of participation in tenders and ensuring an optimal balance between price and quality by eliminating legal stipulation that offer significant advantage to bidder with the lowest

price; - improving access to finance through development of innovative financing schemes, ensuring the efficient transfer of remittances, attracting long-term credit lines from international financial institutions, credit guarantee system development and facilitating small and medium enterprises access to public procurement; - facilitating the development of small and medium enterprises in the regions by stimulating their balanced and sustainable development throughout the Republic of Moldova, ensuring of infrastructure support the development of small and medium enterprises in the regions, promoting those participation in regional and cross-border cooperation;

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