

**ASSESSMENT OF THE BUSINESS  
ENVIRONMENT IN THE REPUBLIC OF MOLDOVA:  
KEY TRENDS AND DETERMINING FACTORS**

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Assessment of trends in the business environment is a matter of interest to entrepreneurs, investors and representatives of the public administration, as it allows well-grounded planning of business development, making reasoned decisions about investing and improving purposefully public policies. In the Republic of Moldova, despite the adoption of the necessary legislation, implementation of government programs and the creation of institutions to support business, trends in the business environment are treated contradictorily by businessmen and public servants. International ratings also provide a mixed assessment of changes in the business climate in the country.

**The purpose** of this article is to highlight the trends of the business environment in the Republic of Moldova, taking into account the specific conditions of the country, based on results of a entrepreneurs survey, using quantitative indicators that allow an unambiguously interpretation of the changes. The methodology designed and implemented by the authors regarding the approach to the evaluation of the business environment is briefly presented. Emphasis is placed on the results of evaluation of the business environment: the main trends and its determining factors. It was revealed the opinion of entrepreneurs regarding the changing in business environment during the period 2011-2013 and the forecast for 2013-2015. The main **conclusions**, including the possibilities of using the obtained results are also presented.

**Key words:** assessment of the business environment, factor of the business environment, policy of entrepreneurship development, emerging market economies.

Evaluarea tendințelor schimbării mediului de afaceri prezintă interes pentru antreprenori, investitori și reprezentanții organelor administrației publice, deoarece permite de a planifica în mod argumentat dezvoltarea afacerilor, de a adopta decizii justificate cu privire la investiții și de a perfecționa în mod direcționat politica de stat. În Republica Moldova, în pofida adoptării legislației necesare, implementării programelor de stat și creării instituțiilor de susținere a afacerilor, tendințele schimbării mediului de afaceri sunt tractate contradictoriu de către antreprenori și funcționarii de stat. Clasamentele internaționale de asemenea oferă evaluări neunivoce ale schimbării climatului de afaceri din țară.

**Scopul** acestui articol este de a arăta tendințele schimbării mediului de afaceri în Republica Moldova, luând în considerare condițiile specifice ale țării, în baza rezultatelor chestionării antreprenorilor, cu utilizarea indicatorilor cantitativi, care permit de a interpreta în mod univoc schimbările. Succint este prezentată **metodologia** abordării utilizate la evaluarea mediului de afaceri, elaborată și realizată de către autorii prezentului articol. Accentul este pus pe rezultatele evaluării mediului de afaceri – tendințele principale și factorii determinanți ai acestora. Este identificată **opinia** antreprenorilor referitoare la schimbarea mediului de afaceri în anii 2011-2013 și la prognoza pentru anii 2013-2015. Sunt prezentate principalele **concluzii**, inclusiv posibilitățile de utilizare a rezultatelor obținute.

**Cuvinte cheie:** evaluarea mediului de afaceri, factorii mediului de afaceri, politica de dezvoltare a antreprenoriatului, țările cu economia de piață emergentă.

Оценка тенденций изменения бизнес-среды представляет интерес для предпринимателей, инвесторов и представителей органов публичного управления, поскольку дает возможность

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аргументированно планировать развитие бизнеса, принимать обоснованные решения об инвестировании и целенаправленно совершенствовать государственную политику. В Республике Молдова, несмотря на принятие необходимых законов, внедрение государственных программ и создание институтов поддержки бизнеса, тенденции изменения бизнес-среды противоречиво трактуются предпринимателями и государственными служащими. Международные рейтинги также дают неоднозначную оценку изменения делового климата в стране.

**Цель** настоящей статьи – показать тенденции изменения бизнес-среды в Республике Молдова, учитывая специфические условия страны, основываясь на результатах опроса предпринимателей, с использованием количественных индикаторов, позволяющих однозначно трактовать происходящие изменения. Кратко представлена **методология** используемого подхода к оценке бизнес-среды, который разработан и реализован авторами данной статьи. Основное внимание уделено результатам оценки бизнес-среды – основным тенденциям и определяющим ее факторам. Выявлено мнение предпринимателей относительно изменения бизнес-среды за 2011-2013 гг. и прогноза на 2013-2015 гг. Представлены основные **выводы**, включая возможности использования полученных результатов.

**Ключевые слова:** оценка бизнес-среды, факторы бизнес-среды, политика развития предпринимательства, страны с формирующейся рыночной экономикой

**JEL Classification:** K20; L26; L53

**Introduction.** Development of entrepreneurship depends on a set of conditions, including the business environment – external factors beyond the control of the enterprise. Business environment may create incentives or, conversely, the barriers to entrepreneurial activity. It also affects the rate of economic growth, employment, investment attractiveness and other macroeconomic indicators of the country/region. Therefore, its monitoring is important for both individual companies and investors, as well as for public authorities implementing the economic policy.

In the Republic of Moldova in recent years, directions and measures to improve the environment for entrepreneurship are provided in a number of important policy documents of the Government, particularly in the National Development Strategy „Moldova-2020”, Strategy for the development of small and medium-sized enterprises for 2012-2020, etc. The Government has adopted the Roadmap to remove critical constraints to the business environment for 2013-2014.

However, despite the adoption of legislation, the introduction of targeted public strategies and programs, the creation of institutions to support the business, the trends of the business environment changes are treated inconsistently by entrepreneurs and public servants: the representatives of the government authorities focus on positive changes in the business climate in the country, while entrepreneurs often indicate a worsening of the situation. International ratings aimed at analysing the changes in the business climate, which also involve the Republic of Moldova, give a mixed assessment.

For a more objective and accurate assessment of changes in the business environment, the authors have developed and implemented an approach that takes into account the specific conditions of the Republic of Moldova, based on a survey of the entrepreneurs, using quantitative indicators that allow an unambiguously interpretation of changes. The article summarizes the methodology of the implemented approach. Emphasis is placed on the results of evaluation of the business environment: the main trends and its determining factors. There was revealed the opinion of entrepreneurs regarding the changing in business environment during the period 2011-2013 and it was given the forecast of its changes over the next 2 years. The main conclusions, based on the survey results, including the possibility of using the obtained results are also presented.

### **1. Definition of the business environment and its assessment: a brief literature review**

In the scientific literature [Shaikh, 2009; Wetherly and Otter, 2014], two groups of factors that create the conditions for doing business are emphasized: internal, on which changes the company may influence (controllable factors), and external ones, outside the firm (uncontrollable). Mainly, factors outside the firm lie at the basis of the definitions of the business environment, used in scientific literature [Richman and Copen, 1972; Shaikh, 2009; Prasad, 2010]. For example, Davis and Blomstrom (1966) define the business environment as the aggregate of all conditions, events and influences that surround and affect it. Glueck and Lawrence (1984), also considering the business environment as a set of external factors to the firm, note that they can lead to new opportunities or threats for enterprises.

Regarding the factors that affect the business environment, the most important of them are related to the economic and political situation, legislation, technological and social development, geographical conditions and so forth [Wetherly and Otter, 2014; Shaikh, 2009]. In accordance with the interpretation of the European Commission, the creation of a favourable business environment requires companies to facilitate access to finance, improving legislation, the development of an entrepreneurial culture [Europa, 2014].

The results of studies of the business environment usually have practical application. This may be the development of recommendations to improve policies to address the elimination of the identified barriers [Dubrovskiy and Ustenko, 2005; Moussis, 2011]. The results of evaluation of the business environment facilitate the decision-making process by investors, based on the forecast of business activity in the country / region. For example, the Swedish Trade and Invest Council regularly conducts The Business Climate Survey in different countries among companies with Swedish capital, that do their business there. This helps Swedish companies to develop investment policy [BCS, 2013a; BCS, 2013b]. The known indicators for assessing the business environment (IFO Business Climate Survey, ZEW Economic Sentiment Index, etc.) have the ability to track and predict the economic cycles that also is taken into account by the entities of financial market [Center for Economic Studies, 2014; ZEW, 2014].

Usually, the concept of „business environment” is used referring to the conditions of the business activity on a certain region within the same country, a country or a group of countries. An example of *local study* can serve the conducting for many years of the CEO Survey of Business Climate in Silicon Valley (USA) [Silicon Valley Leadership Group, 2014]. Among the studies of the business environment in *individual countries*, we can distinguish Ifo Business Climate Survey as a key monthly survey that measures the business climate in Germany, as well as the expectations of German firms for the next six months [Center for Economic Studies, 2014]. The German Ifo is a significant economic health indicator for the Euro-zone as a whole. For *comparison of the business environment in different countries*, international rankings are used. The most famous of them are: Doing Business, The Global Competitiveness Index, Index of Economic Freedom.

## 2. Assessment of trends in the business environment in the republic of moldova on the basis of international rankings

Studies carried out in recent years by well-known international organizations and rating agencies provide an opportunity to compare the business environment in a number of countries, including the Republic of Moldova. For example, in accordance with the international rating Doing Business, calculated by the World Bank, Moldova over the last year has improved its business environment, rising to 4 lines up – on the 78th place [IBRD and The World Bank, 2013]. In *The Global Competitiveness Index 2014-2015*, calculated based on the method of the World Economic Forum, Moldova took 82nd place, retaining its position as compared to 2013-2014 [World Economic Forum, 2014]. On *Index of Economic Freedom*, Moldova ranked 110th place in 2014, rising up with 5 positions compared to 2013 [The Heritage Foundation, 2014].

Table 1 illustrates the change in position of the Republic of Moldova in the leading international rankings, with clearly visible various trends in the business environment over the past 3 years.

**Table 1**

**Position of the Republic of Moldova in the international rankings, 2012-2014**

	2014			2013			2012		
	Rank	Change*	No. of countries	Rank	Change*	No. of countries	Rank	Change*	No. of countries
Doing Business	<b>78</b>	+4	189	<b>82</b>	-1	185	<b>81</b>	+18	183
The Global Competitiveness Index	<b>82</b>	0	144	<b>82**</b>	+5	148	<b>87**</b>	+1	144
Index of Economic Freedom	<b>110</b>	+5	178	<b>115</b>	+9	177	<b>124</b>	-4	179

\* Rank change compared with the previous year.

\*\* Rank based on last year's sample.

*Source: Developed by the authors based on the IBRD and The World Bank (2013), World Economic Forum (2014), The Heritage Foundation (2014).*

An ambiguous assessment of changes in the business environment in a particular country, based on the use of well-known international rankings, is caused by the use of different methodologies, as well as the pace of reforms made in other countries. Thus, for a more accurate assessment of the business environment in the Republic of Moldova, along with the results of international comparative studies, it is necessary to use approaches that consider more deeply the peculiarities of the country's development.

### 3. The proposed approach to the assessment of the business environment in the Republic of Moldova: methodology of research

In order to assess the business environment, the authors have developed the method described and tested in the framework of the research project within the National Institute for Economic Research [INCE, 2013]. The proposed method is based on the following *starting positions*: assessment of trends in the business environment is in the focus of the study, which can be detected by the main factors (including sub-factors and indicators) with a quantitative assessment, and are evaluated on the basis of surveys of entrepreneurs.

*Reasoning and selection of the main factors* determining the change in the business environment have been carried out in 3 stages. At the *1st stage*, a provisional list of factors was formed on the basis of the compilation and analysis of the results of projects implemented in Moldova; of studies of international organizations; of discussion of the problems with the Moldovan entrepreneurs in various forums. At the *2nd stage*, the list of pre-selected factors has been clarified during the interviews conducted "face to face" with 25 experts [IEFS, 2009]. At the *3rd stage*, the revised list of factors was proposed for entrepreneurs for the analysis and evaluation. During the survey, entrepreneurs had the opportunity not only to evaluate changes in the business environment, but also to adjust the proposed list of factors. As a result, the following *10 aggregated factors* that significantly affect the business environment were selected:

- I. Regulatory impacts on business.
- II. Infrastructure, access to resources.
- III. Labour resources.
- IV. Laws and regulations governing the business.
- V. Judicial system.
- VI. Development and implementation of innovations.
- VII. Activities of civil servants involved in the regulation of business.
- VIII. The relationship between public authorities and the business community.
- IX. Attractiveness of investing in Moldovan business.
- X. Risks.

All of the selected factors are complex: they were differentiated into sub-factors, for whose quantification 97 indicators were used. For example, for the evaluation of factor "Laws and regulations governing the business" such indicators were used as: the quality of laws, regulating business; compliance between regulations and the adopted laws; stability of the law; entrepreneur's access to legislation.

*The results of processing the questionnaires are presented by 2 groups of indicators:*

- Statistical indicators of relative share (frequencies) that characterize the changes in the factors of the business environment in the analysed period.

- The index of the positive perception of the business environment ( $I_{ma}$ ), reflecting on what percent of the surveyed entrepreneurs pointed to the positive changes in the business environment (relative to the total number of respondents who indicated any changes in the business environment). The index was calculated according to the following formula:

$$I_{ma} = \frac{I_{ma\_plus}}{I_{ma\_plus} + I_{ma\_minus}} \times 100\% \quad (1)$$

in which:

- $I_{ma}$  - index of positive perception of the business environment,
- $I_{ma\_plus}$  - proportion of entrepreneurs that reported the improvement of the business environment,
- $I_{ma\_minus}$  - proportion of entrepreneurs that reported the worsening of the business environment

Theoretically,  $I_{ma}$  may vary from 0 to 100%. At its value from 0 to 50%, there are predominated negative evaluations; from 51 to 100% – positive assessments regarding changes in the business environment. Indices were calculated for each indicator, and then they were compiled and integral indicators were obtained.

#### 4. Assessment of changes in the business environment in the Republic of Moldova: the main results

Assessment of the business environment was carried out in 2013, based on a survey of 304 Moldovan entrepreneurs representing the vast majority of regions of the country [INCE, 2013].

##### 4.1. The overall assessment of changes in the business environment

During the analysed period (2011-2013), in the opinion of a relative majority of entrepreneurs, the business environment has deteriorated: 46.9% of entrepreneurs indicated on the negative trend, and 17.7% – on the improvement of the situation. The index of the positive perception of the business environment ( $I_{ma}$ ) was 27%. That is to say, of all the respondents who indicated a change of business environment, only 27% indicated that these changes were positive. The calculated values reflect more negative changes in the business environment, as compared with the previous period:  $I_{ma}$  decreased by 12 percentage points; the proportion of respondents who reported worsening of the situation, increased from 32,0 to 46,9% (Table no. 2).

**Table 2**

**Changes in the business environment: general trends, %**

Years	Trends in changes of the business environment			The index of a positive perception of the business environment
	Improvement	Worsening	No changes	
2011-2013	17,7	46,9	35,4	27
2009-2011	20,4	32,0	47,6	39

Source: Calculated by authors based on the survey of entrepreneurs, INCE (2013); INCE (2011).

##### 4.2. Trends of the main factors that determine the changes in the business environment

Entrepreneurs, in accordance with the questionnaire, had the opportunity to assess changes of 10 major factors that determine the business environment in the Republic of Moldova. The trend of *improvement* of the business environment has been observed in relation to a single factor; the remaining 9 factors negatively influenced the changes in the business environment.

##### 4.2.1. Factor of positive influence on the change in the business environment

Positive changes in the business environment were determined only by the factor "Infrastructure, access to resources", in which the index of a positive perception of the business environment ( $I_{ma}$ ) was 61%. The positive impact of this factor is due, above all, to the improvement of access to a network of business services (education, information, counselling), as well as to the Internet (Table no. 3).

**Table 3**

**Changes in the business environment: factor "Infrastructure, access to resources" ( $I_{ma} \geq 50\%$ ), %**

Indices	The index of a positive perception of the business environment	Change of the situation in 2013 compared with 2011		
		Improvement	No changes	Worsening
Development of infrastructure, access to resources	61	39,6	34,7	25,7
Access to Internet	93	75,1	19,6	5,3
Access to business services network	86	58,2	32,5	9,3
Access to finance	34	19,7	42,8	37,5

Source: Calculated by authors based on a survey of entrepreneurs, INCE, 2013.

To improve access to the network of business services, training courses offered by the Government for start-ups in all districts of the country (the program GEA) had a positive impact, as well as a number of other government programs, in which the training and consultation is one of the components (PNAET, PARE 1+1). So, Mr. Stefan Sandic attended courses for startup entrepreneurs at the state Organization for the development of small and medium-sized enterprises sector and became the first recipient of the grant of 200 thousand MDL in the project for migrants "PARE 1+1". This has helped him to develop his own business and, according to the businessman, has strengthened the credibility of the state [MyBusiness, 2014b].

In contrast to the improvement of access to the network of business services, entrepreneurs pointed to the worsening of the access to finance ( $I_{ma} = 34\%$ ). Difficult access to finance is confirmed by many studies [INCE, 2011; Philipponner et. al., 2011; IFC and World Bank, 2010], therefore a financial support is an important part of government programs. So, the Program of attracting remittances in economy

“PARE 1+1” provides a non-refundable grant, while to every 1 lei invested from remittances will be added 1 lei from the Program. Within the National Programme for Economic Empowerment of Youth (PNAET), there is provided the obtaining of credits with a non-fundable grant amount. But the number of entrepreneurs who have received financial assistance under these programs is small. It is still difficult and expensive to get loans from commercial banks and microfinance institutions. The most popular sources of funding for small businesses remain those informal from their inner circle: friends, relatives, business partners.

#### 4.2.2. Factors that negatively influenced the change in the business environment

Two factors had the most significant negative impact on the business environment – the judicial system and risks external to the enterprises (Table no. 4).

**Table 4**

**Changes in the business environment: factors “Judicial system” and “Risks” ( $I_{ma} < 5\%$ ), %**

Indices	The index of a positive perception of the business environment	Change of the situation in 2013 compared with 2011		
		Improvement	No changes	Worsening
<b>Possible risks</b>	<b>4</b>	<b>3,5</b>	<b>16,8</b>	<b>79,7</b>
Country's exposure to internal conflicts and risks	5	4,2	15,8	79,9
Country's exposure to external risks	3	2,8	17,8	79,4
<b>Judicial system</b>	<b>4</b>	<b>2,9</b>	<b>24,8</b>	<b>72,3</b>
Confidence of entrepreneurs in the protection of their property rights	5	3,6	28,3	68,1
The ability to quickly and fairly resolve disputes in court	5	3,6	22,7	73,7
Independence of the judicial system from: Police	4	1,9	19,2	78,9
Officials	3	2,3	28,7	69,0
Politicians	2	3,1	25,2	71,7

*Source: Calculated by authors based on a survey of entrepreneurs, INCE, 2013.*

By the “*Risk*” factor, reflecting the exposure of business to economic and political, internal and external conflicts and risks, 79.7% of respondents indicated on the worsening of the situation, and only 3.5% said that the situation has improved.  $I_{ma}$  is critically low, accounting for only 4%. More important for entrepreneurs is the impact of *external* risks, which was determined by the global financial crisis and problems with the exporting of Moldovan goods on foreign markets, especially in Russia, which still remains important for Moldova. *Internal* conflicts and risks associated with political and economic instability in the country also had a negative impact on the business environment. Mainly the analysed period was characterized by a crisis of power associated with loud accusations against the leaders of the country, the resignation of the president and the government, and the repeated attempts of their electing.

Political instability remains important for the Moldovan entrepreneurs over the years (see, for instance, IEFS, 2010). Foreign investors also noted the special importance of this factor. According to Gregory Mereacre, the financial coordinator on Moldova of the company “Mentor Finance”, foreign investors do not tend to significant investments in Moldova, as instability sets a very high risk for investment [Макарова, 2011].

Regarding the factor “*Judicial system*”, the majority of respondents (72.3%) reported its worsening and only 2.9% indicated that the situation has improved;  $I_{ma}$  on this factor accounted for 4%. This index has a negative critical value (5% or less) on all indicators characterizing the judicial system: there is reduced the business confidence in the protection of their property rights; worsens the opportunity to resolve disputes fairly in court; reduced independence of the judiciary from the politicians, officials and police.

Problems in the judicial system of the country, including the spread of corruption, were officially recognized at the highest level. The president of the country N. Timofti stated that in Moldova, many judges take bribes and continue to work, although they need to be punished for this [Smolnițchi and Cuțu, 2014]. To improve the situation, the Government of the country appealed to the EU member states to send a judge's mission to Moldova to monitor the process of justice.

Below we will consider other factors that also negatively influenced the changes in business environment.

By the factor of "*Laws and regulations governing the business*", the majority of entrepreneurs (52.7%) reported worsening of the situation, and only 12.2% – that the situation has improved;  $I_{ma}$  was 19%. Almost half of employers noted an *improvement* of entrepreneurs' access to the legislation ( $I_{ma} = 48\%$ ), due to a significant improvement in access to the Internet, as mentioned above (Table no. 5).

*Worsening* of laws, to the greatest extent, is related to its instability ( $I_{ma} = 4\%$ ). And although during the analysed period, in the basic laws related to the regulation of business no changes have been made, but the tax laws has worsened considerably. Zero income tax rate for all businesses was cancelled and there was introduced a "privilege" for the most vulnerable groups of micro businesses – taxes on income, regardless of profit existence. And it has played a crucial role in assessing the changes in the legislation as a critical negative (Table no. 5).

Table 5

**Changes in the business environment: factors with the index of a positive perception of the business environment  $I_{ma}$  from 15 to 50%**

Indices	The index of a positive perception of the business environment	Change of the situation in 2013 compared with 2011		
		Improvement	No changes	Worsening
1. The relationship between public authorities and the business community	36	21,2	41,4	37,4
2. Development and implementation of innovations	34	19,4	42,5	38,2
3. Labour resources	29	17,8	38,1	44,1
Activities of civil servants involved in the regulation of business	29	19,2	34,6	46,2
4. Regulatory impacts on business	25	13,1	47,9	39,0
5. Attractiveness of investing in Moldovan business	22	15,2	32,3	52,5
6. Laws and regulations governing the business	19	12,2	35,2	52,7

*Source: Calculated by authors based on a survey of entrepreneurs, INCE, 2013.*

Regarding the factor of "*Attractiveness of investing in Moldovan business*" relative majority of employers (52.5%) reported *worsening* of the situation, and only 15.2% reported an increase in the attractiveness of Moldovan business for investors;  $I_{ma} = 22\%$  (table no.5).

To a greatest extent, the *worsening* in the business environment was related to the investment attractiveness of the Republic of Moldova in comparison with neighbouring countries and the presence of government guarantees for the protection of foreign investments (in both  $I_{ma}$  has a critical low level, accounting for 9%). Adverse changes in the investment attractiveness of Moldova, in comparison with neighbouring countries, may indicate the limitations of the investment in the country and in the future. As part of the deterioration of the situation with respect to "the State guarantees for the protection of foreign investments", probably played a role the cases with large investors, who were charged unjustified claims by the regulatory bodies, which were widely discussed in the media. For example, a company with foreign capital Glass Container Prim in 2007 took advantage of the existing legal privilege, achieving exemption from VAT of imported production equipment when it was included in the authorized capital. In 2012, Chisinau Customs made a verification and decided that the company has to pay VAT and a fine for its late payment in the total amount of 33 million MDL. Investor sued, but in February 2013 it lost the case in front of the Appeals Chamber.

Factor "Regulatory impacts on business" included: regulation of the main stages of entrepreneurial activity (company registration, accounting, government inspection and oversight, taxation, business liquidation), as well as obtaining licenses, certificates, permits for various purposes. Of the total number of respondents, 13.1% reported an improvement in the regulatory activities of the state; 39.0% registered the opposite trend;  $I_{ma} = 25\%$ . Taking into consideration the special attention given by the State to the regulatory reform for many years, it is a fairly low rate (Table no.5).

*Positive trends* were noted for the registering of companies and licensing of certain activities. In the case of Registration of Companies ( $I_{ma} = 61\%$ ) the positive role was played by the opening of "single windows". A positive evaluation of licensing ( $I_{ma} = 55\%$ ) is due to reduction in the number of licensed activities and simplification of the process of obtaining a license.

The most *negative changes* in the business environment have been noted, especially in relation to taxation ( $I_{ma} = 6\%$ ). By this procedure, all indicators without exception have a critically low value: the amount and number of paid taxes and mandatory fees; the share of taxes and fees in sales; predictable changes in the tax system. A significant role in such a negative evaluation was played by the already mentioned cancellation of the zero rate of tax on income, as well as the perception of entrepreneurs of any regulatory measures as of primarily fiscal orientation.

Another problem faced by the business is the complexity, cost and duration of the procedure of closing the company ( $I_{ma} = 15\%$ ). President of the State Registration Chamber, Mr. Victor Cebotari, states that the procedure for removal from the State Register is one long lasting 12 months, as required by law. As a result, from more than 170,000 registered economic entities in Moldova, only about 35-40% are active [Alcază, 2014]. The owners of many of the "inactive" companies probably would close their businesses, if the procedure was easier and cheaper. At the same time, many entrepreneurs would have legalized the business, if they knew that they could close it just as easy as register.

Regarding the factor "Activities of civil servants involved in the regulation of business", 46.2% of respondents said that the situation has worsened in 2 years, 19.2% - that the situation has improved;  $I_{ma} = 29\%$  (Table no. 5). The *negative* value of this factor was influenced primarily by bureaucracy and corruption ( $I_{ma} = 10\%$ ) and the dependence of civil servants from political influence ( $I_{ma} = 14\%$ ). The *negative impact of the policy on enterprises activity* was pointed by the chairman of the Association of small business in Moldova Eugene Roscovan. He noted that to some enterprises privileges are granted on political criteria, which clearly is not a normal business environment [Новости Молдова, 2013].

*Improvement* of the situation noted by the majority of respondents, took place only at a part of the participation of regional and local authorities in support of business:  $I_{ma} = 52\%$ . Positive perception of entrepreneurs of district and local government and public administration activities confirms the need for the implementation of regional reform, because even today, in the context of very limited financial and human resources, entrepreneurs feel the support of the regional and local levels of government.

Regarding the factor "Labour resources" only 17.8% of entrepreneurs are positive about the changes, 44.1% – negative;  $I_{ma} = 29\%$  (table no.5). Relatively higher proportion of respondents noted a trend of *improving* the business culture of the personnel (including labour discipline, ethics, etc.),  $I_{ma} = 37\%$ .

*Worsening* trend on this factor is determined by the *complexity* of access to the staff of necessary specializations and qualifications. Chairman of the business club "Timpul" Igor Krapivka, clearly identified this problem on the Forum of businessmen in Moldova: "there is a lack of skilled workers, who prefer to go abroad, as well as managers" [Florea, 2013]. This is confirmed by entrepreneurs. For example, the director of a garment enterprise complains that in Moldova it is difficult to find skilled seamstresses and mechanics of equipment, as in specialized schools they are taught on older machines. Therefore for troubleshooting in the modern sewing equipment they have to invite experts from Romania, which at the same time train personnel in the enterprise [MyBusiness, 2014a].

According to the factor "Development and implementation of innovations", 38.2% of entrepreneurs said that the situation in the last 2 years has worsened, 19.4% - that it was improved; the index of positive perception of the business environment was 34% (Table no.5).

The most *positive trends* are related to increasing the interest of enterprises in innovation ( $I_{ma} = 48\%$ ). This is very significant because the lack of orientation of Moldovan business innovation development is one of the barriers to increasing the competitiveness of enterprises. Especially because the relatively low level of innovations dominate in the Moldovan SMEs focused on expanding the range of products [Aculai, 2013].

Negative evaluations ( $I_{ma} = 22\%$ ) are marked by entrepreneurs in reducing *state incentives for development and implementation of innovations*. Today, in Moldova, there are already working certain institutions of infrastructure designed to help companies to acquire, develop and implement innovations: Agency for Innovation and Technology Transfer, science and technology parks and innovation incubators. But some of them are still only formally registered, others have already begun to work, but financial support provided by the state, allows them to maintain a very small number of residents. In addition, lack of innovative business development is also an obstacle to the introduction of innovative ideas. For example, in 2010 the Moldovan scientists have invented a new method for constructing nanostructures. But there are no high-tech firms in the country that could use this method [Робул, 2011].

Regarding the factor *"The relationship between public authorities and the business community"*, 37.4% of businesses felt that the situation has deteriorated in this factor; 21.2% – that it has improved;  $I_{ma}$  was equal to 36% (table no.5).

*Adverse changes* in the relationship between business and the authorities were most often explained by the entrepreneurs by the low consideration of their opinion and taking into account their views in decision-making, as well as a decrease of trust between entrepreneurs and servants of the public administration ( $I_{ma}$  for both indicators = 21%). Both marked reasons are largely due to the *lack of a permanent dialogue between businesses and public authorities*. The weak entrepreneurs' hope for a constructive dialogue with the authorities was mentioned in the information on the forum of business people, organized by the National Confederation of Employers: in 2002, the participant of the Congress of business people threatened that they would close their companies in the event of failure of their claims. In 2003 they enthusiastically offered to establish their own party and set up a commission under the president to fight corruption. In 2013 the National Confederation of Employers modestly suggested the Government to sign a memorandum of cooperation to create an effective system of dialogue between government institutions and business [Florea, X, 2013].

#### 4.3. Forecast on changes in the business environment

During the survey, entrepreneurs were asked to make a forecast of changes in the business environment for 2013-2015. The majority of respondents have positive expectations: 44.1% of the entrepreneurs indicated the improvement of the situation in the future; 34.9% believe that the business environment will deteriorate. The index of a positive perception of the business environment for 2013-2015 was 56%, that is, the forecast index is more than 2 times higher than the analogic indicator, which reflects the actual situation. The excess of the predicted values over the actual index reflects an entrepreneurs' hope to improve the situation. This is a positive signal from the business as positive expectations are more likely to lead to positive results (Table no. 6).

Table 6

#### Forecast on changes in the business environment for 2013-2015

Trends in the changes of business environment	% respondents
Improvement	44,1
Worsening	34,9
No changes	21,0

Source: Calculated by authors based on a survey of entrepreneurs, INCE, 2013.

#### Main results and conclusions

In the Republic of Moldova trends of the business environment changes are treated inconsistently by the entrepreneurs and public servants; international ratings also provide a mixed assessment. The authors have developed an approach, which aims to uniquely quantify trends in the business environment, given the current conditions of the Republic of Moldova. A questionnaire was prepared and a survey of 304 entrepreneurs from most districts of the country was conducted.

The results showed that during the period under review, in the opinion of most entrepreneurs, the business environment has worsened. Of all the respondents who indicated a change of business environment, only 27% reported improvement. Out of 10 aggregated factors determining the trend of the business environment, an *improvement* was observed only in relation to the factor "Infrastructure, access to resources". The remaining 9 factors were characterized by negative trends.

Synthesis of the answers of Moldovan entrepreneurs led to the conclusion that they are most concerned about the situation in the areas that are not directly related to the development of entrepreneurship policy. This, above all, is the problems of the judicial system, external conflicts / risks, high level of corruption, and others. These problems are systemic ones, affecting all sectors of society, impacting negatively on the entrepreneurship.

Analysis of the factors of the business environment, mainly dependent on the policy of the development of entrepreneurship, showed the primary role of those that affect the current activities of enterprises, primarily on the financial position. This applies not only to access to financial resources, but also to issues related to the regulation of business: financial costs are significant in obtaining any government services. The negative assessment of the legislation as an unstable one, was also associated with an increase in the tax burden.

Despite the fact that in the Republic of Moldova in the framework of public policy many measures are envisaged and implemented to improve the business environment, the majority of entrepreneurs negatively interpret the changes. Analysis of the results from surveys and interviews with entrepreneurs and experts revealed the following reasons for this assessment:

- In recent years, the expectations of entrepreneurs regarding the state support of business have significantly increased. In the 90-s, many entrepreneurs, referring to the role of the state, noted, “do not help us, most important is to not interfere!”. In recent years the situation has changed drastically: entrepreneurs are already aware of the role of government in creating an enabling environment for business development, counting on the support of the Government, but are not satisfied with what is being offered. Unjustified expectations of entrepreneurs generate negative evaluation of changes in the business environment that may be more negative than they are in reality.

- Trust between business and public administration is characterized by a rather low level, largely due to the prolonged negative experiences of their relationship. Lack of trust is compounded by the fact that there is a significant gap between what is promised by representatives of public authorities in the forums or in policy documents, and the real situation. This discrepancy is very irritating for the entrepreneurs. As a result, they do not always properly assess positive changes.

The results of evaluation of the business environment have a practical orientation. They can be used both by the public authorities and the business community.

In particular, *the results of the study can be used by the Government* to argue the priorities of the state policy in the drafting of laws, policies and programs aimed at the development of the business, or when summing up the implemented measures. For example, the implementation of the state program, which provides free education, helped to improve the start-up entrepreneurs' access to business training; opening of the "single window" for business registration has led to facilitate the creation of enterprises; widespread of the Internet had a positive impact on improving access to legislation, etc. As a result, a relatively large proportion of entrepreneurs reacted positively to the noted changes.

At the same time, entrepreneurs have significant claims to many government policies, which for many years are declared by the Government. High and non-reducing level of corruption and bureaucracy, primarily fiscal nature of the controlling bodies, political instability, “telephone” judge-made law, and other negative factors negate the achievements in public policy.

*The results of evaluation of the business environment* are also of interest for individual businesses that can use them in the development of plans for its activities, dialogue with the government, advocacy and lobbying of their interests. Currently, strategies of the business activities of Moldovan entrepreneurs, especially those in the SMEs sector, possess characteristics, caused by the peculiarities of the business environment - its unpredictability and the high risk of adverse changes. Elements of this strategy were identified during the interviews conducted with entrepreneurs. These include: (i) focus on short-term plans to the detriment of strategic activities; (ii) support mainly on their own financial resources, given the limited scope of borrowing; (iii) the availability of reserves (time, money, personnel), because there is a possibility of unpredictable changes in the state, market, corrupt officials, etc.; (iv) the priority of individual work to the detriment of cooperation and association of enterprises. These strategies of Moldovan entrepreneurs protect them from adverse environmental conditions, but significantly slow down the development of the business. The role of these strategies will weaken with the improvement of the business environment and as a result of more positive perception of the changes by the entrepreneurs. Hope exists due to optimistic estimates of Moldovan entrepreneurs on the forecast of the business environment in the coming years.

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