

National Business Agenda 2009

**Priorities for competitive and attractive
business environment development
in the Republic of Moldova**

CONTENTS

1. Background on development of the National Business Agenda	4
2. Agenda Summary	6
3. Common platform of private business in the Republic of Moldova	8
4. Ownership over the National Business Agenda	11
5. Priorities of the National Business Agenda.....	13
6. Priority one: Reducing Administrative Barriers, State intervention in Economy and Ensuring a Competitive Business Environment.....	14
i. Objectives and measures for 2009.....	16
ii. Long-term objectives for 2010-2013.....	20
7. Priority two: Optimization of the Fiscal System.	25
i. Objectives and measures for 2009.....	26
ii. Long-term objectives for 2010-2013.....	29
8. Priority three: Consolidation of the Rule of Law.....	32
iii. Objectives and Measures for 2009.....	33
iv. Long-term Objectives for 2010-2013	35
9. Priority four: Development and Efficient Use of the Human Capital.	35
v. Objectives and Measures for 2009.....	38
vi. Long-term Objectives for 2010-2013	39
10. Priority five: Promotion of investments and Facilitation of Foreign Trade.	42
• Objectives and Measures for 2009.....	46
• Long-term Objectives for 2010-2013.....	47
11. Implementation of the National Business Agenda: the timeline and assessment indicies.	53
12. Reference and Contacts	54
13. Partners.....	58

BACKGROUND ON DEVELOPMENT OF THE NATIONAL BUSINESS AGENDA

In autumn of 2007, IDIS “Viitorul” established the first contacts with the Moldovan business community. The goal of this initiative was to promote consolidation of Moldovan business community that would crystallize in a program of enterprise development and contribute to promotion of business initiative founded on the reliable methodology of “The National Business Agenda”, launched by the Center for International Private Enterprise (CIPE) in partnership with the US Chamber of Commerce and Industry.

IDIS sent an informative letter to over 50 business organizations and in December 2007 this IDIS/CIPE initiative was presented to the leading business associations from Moldova, an event attended by John Sullivan, CIPE executive director. Immediately after, there was launched a series of regional round table discussions at which Chambers of Commerce and Industry from Hincesti, Soroca, and Cahul shared this initiative with local business-people.

This initiative of IDIS “Viitorul” was supported by over 25 leading business associations, which expressed their interest in contributing to the establishment of a common position regarding current issues in Moldovan business community. In spring 2008, a joined team of CIPE and IDIS experts, led by Camelia Bulat, Elena Suhir, Natalia Otel-Belan, and Tatiana Lariusina, carried out a diagnostic research in order to determine priority directions and major problems faced by Moldovan business associations. The outcomes were presented within a three-day seminar held in Vadul-lui-Voda in March 2008. This was to put into discussion identification of problems faced by business associations from Moldova, ways of establishing collaboration among the associations, and steps in development of the National Business Agenda.

Renowned experts and representatives of business communities from Ukraine, Belarus, and Romania took part in this event. Five working groups were formed; they came up with a time line of the Agenda development, considered the ways of presenting the results to the public, in general, and to the government, in particular. Simultaneously to the development of the Agenda, in June 2008, IDIS and CIPE experts organized a two-day training specialized in improvement of the overall organization and management of business associations. The training, led by Despina Pascal and Sergiu Gherman, was attended by 16 business organizations.

In autumn of 2008, the first draft of the National Business Agenda was developed and discussed at the plenary meeting of the National Confederation of Employers from the Republic of Moldova and later was sent out to all members participating in the process of its develop-

ment at both national and local levels. The second wave of regional round table discussions revealed increased desire of local business entities to support the project. This event, held in partnership with Chambers of Commerce from Ungheni, Cahul, Hincesti, Orhei, Soroca, Edinet, Balti, and Gagauzia, came up with some valuable suggestions. In September 2008, the final draft of the National Business Agenda was suggested by IDIS to be examined by the Board of Experts represented by the leading experts in the field of entrepreneurship in the Republic, as well as international experts in business process and regulations.

In October 2008, The National Business Agenda -2009 was presented to general public within an international conference held in Chisinau under the auspices of IDIS "Viitorul". Among the invitees were outstanding business leaders and CIPE partners, Andrew Willson, Camelia Bulat, and Dmitriy Liapin from Ukraine.

The discussions resulted in some important achievements, i.e. determined support of the suggested measures on behalf of the business community; importance of participation of the business community in the process of identification of priority directions in developing Moldova economy; involvement of business community in the process of taking decisions important for the whole society; enhancement of the management development and representative capacity of business associations in Moldova.

Thereby, the National Business Agenda was widely disseminated, its discussion being performed according to the approaches of transparency and inclusiveness.

AGENDA SUMMARY

The mission of the National Business Agenda is to develop a common platform of priorities, solutions, and objectives of the business community of the Republic of Moldova. It identifies itself with the issues and transformation processes within the country in its transition towards a model of efficient governance based on the institutions and values of a functional market economy.

Business associations, that decided to support this process, have developed this document in terms of the experience acquired in previous years, thus crystallizing their vision upon the priorities for the upcoming years regarding economic development and consolidation of market economy in the field of business regulation in the Republic of Moldova, particularly deliberating on:

- *Introduction of the zero tax rate on the reinvested profit on behalf of the legal entities;*
- *Adoption of fiscal amnesty policy and legalization of incomes;*
- *Shift from a 3 to 2-step procedure and decrease in the maximum rate from 20% to 18% of the income tax in natural persons;*
- *Gradual redistribution of social security payments between the employer and the employee;*
- *Revision of the legal framework regarding business regulation and implementation of „Guillotine 1“;*
- *Providing legislative support in establishing a social dialogue between the public and private sectors;*
- *Improving the methodology of calculation of the mandatory auto insurance.*

However, we also had to ascertain numerous failures in terms of business regulations registered recently. We will underline a series of factors that had a negative impact on the development of the private sector and fair competition of business entities in the Republic of Moldova. Among these we will remark as follows:

- *Slow pace of implementation of the „Guillotine 1“ and „Guillotine 2“ laws and stagnation of reforms of the central government that resulted in the incapacity of the authorities to obtain a synergy effect of the regulatory reform within the established period;*
- *The subsidies offered by the state frequently cause unfair competition instead of development in some strategic economy sectors;*
- *Persistence of the ‘presumption of guilt’ in treating business if related to state institutions;*
- *The process of liberalization of the wage system has been completely stopped resulting in acceleration of the emigration process as an effect of lack of investments in labour market.*

We consider that these deficiencies produce a direct effect on us, citizens of the Republic of Moldova and members of the business community. We believe in our ability to find solutions regarding these issues by mobilizing the potential of our associations and promoting efficient, flexible cooperation and consultation with state institutions aiming in our actions at promoting progress and overcoming stagnation.

We plan to reflect these issues in the National Business Agenda as they are perceived and ranked by the local business community being conscious that its level of competitiveness is directly reflected upon the welfare of the state and society as a whole.

Besides identifying the constraints and issues that currently erode the stability of the business community, we also intend to offer possible solutions that the authorities could take in order to overcome existing barriers.

The National Business Agenda (2009) cements a consensus, already existent in our society, to resolve any problem through dialogue, consultation, and strategic vision. We hope that the principles of the Business Agenda will have a long-lasting effect on the society and will meet its expectations.

We share the business community's position setting up 5 main directions and objectives to be implemented in the upcoming 3 years to promote development of attractive business environment based on competition. These are:

- *Reducing administrative barriers and ensuring a healthy competitive environment;*
- *Optimizing the tax system;*
- *Promoting foreign investment;*
- *Consolidating judicial institutions;*
- *Ensuring efficient use of the human capital.*

These objectives are projected upon specific actions and priorities chronologically ordered depending on their complexity and urgency for the business environment.

Each of the selected priority sections of the National Business Agenda identifies specific problems to be solved as well as solutions generated by the business community and experts in the field.

The National Agenda anticipates the potential impact of these priorities on business environment taking into account the current situation in both Moldovan economy and society.

Common platform of private business in the Republic of Moldova

The common platform, established by the National Business Agenda, originates from the consolidated will of the Moldovan business community to contribute to the creation of a prosperous, responsible, and mature society where the economic initiative and pluralism of forms of ownership are constitutionally guaranteed in practice and where the norms of business running can offer equal opportunities to all persons with spirit of initiative.

Our goals are inseparable from the values we share.

We believe that the welfare of citizens can be ensured only if the Republic of Moldova registers a durable and qualitative growth of its economic capacity in conditions of a maximum openness towards the European and international markets.

We are convinced that in global economy only competition, competitiveness, and the sense of innovation can decide upon the role of a nation in the world.

The economic competition depends on the well-functioning of the market economy institutions, on dynamic and free development of the private sector, on the quality of economic and professional education, as well as on the values of the business community.

We believe it is time to develop a common platform of private business in the Republic of Moldova as it is necessary to create a new generation of stimuli for entrepreneurship and economy.

Local private business, as well as foreign investors, is alarmed at the problems existent at legislative and normative level which harm the efficient functioning of business entities, particularly of new ones, and general investment climate.

Moldova still needs substantial preparation, up-to-date knowledge, and high professionalism in order to shift from lean economy, vulnerable to outside influence, to efficient and competitive economy built upon European standards.

Our ambitions are based on the values and principles of modern business which is fully aware of its institutional importance for a democratic society and its social responsibility towards Moldovan citizens.

Our actions are rooted in our desire to actively participate in the process of redressing and modernization of national economy that strives for European integration.

Supporting the ideas of the National Business Agenda, we realized the importance of a long-term consolidation of Moldovan business community, an aspiration matching the values we share.

The experience and knowledge we acquired clearly prove the fact that only a climate promoting partnership and open dialogue can contribute to advanced competitiveness among local producers and foreign investors.

Nothing can substitute, however, lack of a clear legal framework which would guarantee protection of private property, establishment of clear and precise rules equal for all economic agents, separation of political power from property holding, as well as limitation of abusive interventions of state institutions in business.

Creation of a unique model of dialogue and communication between the authorities and the business community brings forward high demands for both parties. Both the state and the business community have to learn to express patience, consistency, and high principles in overcoming vestiges of mutual confrontation.

The Moldovan business community needs to the utmost to invest special efforts in consolidating its voice, improving self-organization and efficiency of the business community, based on common interests, equality, and transparency.

We are aware that this effort cannot equate to similar initiatives of the business communities from Central and Eastern Europe that managed to raise the prestige and quality of governance in their countries by adjusting their National Business Agendas to institutional needs and consequently managed to join the European Union (Poland, Romania, and Hungary).

There are several other countries in which consolidation of business communities favoured their attractiveness on the international level and brought about rapid growth of direct foreign investments (Ukraine, Montenegro).

Being aware of the complexity of identified issues and possible solutions, business associations suggest coordinating their implementation through an Advisory Council, thus assuring the achievement of those goals.

These steps reflect special interest on behalf of the representatives of business communities and experts in elaborating mutually advantageous forms of collaboration in the field of economic legislation and development of special business programs for Moldova.

Creation of this sort of agenda for Moldova would be impossible without an efficient, respectful, and trustful dialogue among various business groups as well as central state authorities.

The inefficiency of previous strategies and policies, aiming at development of business in the Republic of Moldova, can be treated from different perspectives. Few will contest, though, their negative impact on the national economy, resulting in mediocre achievements in certain entrepreneurial domains and consequently their influence on the level of living, prosperity of individuals and society as a whole.

Fundamental for each business is correct assessment and proactive analysis. By creating our companies, we consciously undertook some risks feeling the consequences to the full extent. Besides the risks characteristic to business in Moldova, a state with a forming market economy, there are enough barriers generated by governmental policies.

For this exact purpose we tend to become partners with full rights of the government in relation to the establishment of the rules of the game and we want to be sure that these rules will be applied equally contributing to the loyal competition and prosperity of our entities and state economy.

Implementation of social programs requires funds. However, economy growth is impossible to be achieved through administrative means or increase of fiscal tightening (both official and unofficial) upon private enterprise.

The only way to redress the situation in case of an economy in transition can be ensured through authentic development of market economy institutions, reduction of administrative barriers, and spur private initiative. The more successful and prosperous the business entity, the more solutions the state will have to meet social needs and provide welfare of its citizens.

Under these conditions, many businesspeople from the Republic of Moldova started to realize the obvious imperative to concentrate their efforts in order to consolidate business environment, to decide upon a common platform of ideas and solutions able to contribute to the development and improvement of legal instruments, policies, and mechanisms as well as their correct implementation.

It is necessary to create a flexible framework communication framework to build up consensus upon the most important priorities of state development. It is also of vital importance to dissociate interests of certain business groups from the efforts of the majority of business associations from the Republic of Moldova that would presume dialogue, and cooperation, convergence and active mobilization on development of strategic objectives.

The National Business Agenda reconfirms our decision to engage in this dialogue.

Development of an Agenda of this type will allow Moldova to pass to a more mature level of partnerships between public and private sectors adhering to the vast community of states that practice civilized forms of dialogue between business and authorities, using this instrument or similar instruments to coordinate legislative and entrepreneurial activities. This analysis and clear matrix of proposals reflect our common understanding of strategic priorities for the development of entrepreneurship in Moldova.

We hope that the National Business Agenda will also become an appropriate instrument of mobilization and will lead to boost in performance in the national economy. We are

willing to contribute to this effort, thus declaring our support for the objectives established in this statement of common priorities.

From this perspective, the National Business Agenda not only creates the picture of the economic and administrative realities in which we currently activate but presents a coherent vision upon the model of economy that we strive for, deliberating on the essential obstacles that have to be overcome by the business environment and authorities to fulfill their specific functions to ensure prosperity of citizens.

Hence, we plead for the articulation of these ambitions in the framework of national strategies developed by the authorities of the Republic of Moldova.

We are open for dialogue and invite other business associations to participate in the process of promotion and consolidation of the National Business Agenda.

We need moral and political support of the entire society to accelerate the process of radical transformation of Moldovan business environment.

Ownership over the National Business Agenda

The National Business Agenda is the product of some intense consultations and discussions initiated throughout to 2008 exactly defining the priorities of social and economic development from the perspective of the largest and most respected business associations from the Republic of Moldova.

Approximately 26 business associations agreed to participate in finding solutions for identified problems, following the option of supporting the development of a competitive and attractive business environment through concrete actions. We have the pleasure to mention the following associations:

- *Employers' Confederation from Moldova*
- *Employers' Federation of Construction, Road Workers and Producers of Construction Materials "Condrumat"*
- *The National Association of Producers in Agriculture from the Republic of Moldova*
- *The Association of Wine Producers from Moldova*
- *The Association of Transportation and Road Managers from Moldova*
- *The Association of Banks from Moldova*
- *The Republican Club of Businesspeople "Timpul"*
- *The Association of Wine Guild from Moldova*
- *The Association of Small Business from the Republic of Moldova*
- *The Association of Customs Brokers from Moldova*

- *The Union of Insurance Agents from Moldova*
- *Cahul Chamber of Commerce*
- *Hîncești Chamber of Commerce*
- *Ungheni Chamber of Commerce*
- *Soroca Chamber of Commerce*
- *Orhei Chamber of Commerce*
- *Edinet Chamber of Commerce*
- *Balti Chamber of Commerce*
- *Gagauzia Chamber of Commerce*

Thus, we would like to express our acknowledgement to those who contributed personally to the development of the National Business Agenda through their participation in working groups and also through direct discussions with representatives of private business, chambers of commerce, and business associations who provided support in consolidating the common platform.

We are convinced that the dialogue, recently launched by business communities, will resist over time and will contribute to the achievement of the goals set in the National Business Agenda.

We would like to thank The Institute for Development and Social Initiatives “Viitorul” for their support in starting the process of development and mobilization of business community in our country.

And last but not least, our colleagues from CIPE (Centre for International Private Enterprise, USA) deserve our acknowledgement for the support granted throughout 2008 in implementation of this valuable national initiative.

PRIORITY DIRECTIONS

Reducing administrative barriers, state intervention in economy and ensuring a competitive business environment	<ul style="list-style-type: none"> • Implement the Impact Analysis Regulation system; • Apply the presumption of innocence in relations between the Agency for Competition Protection and private business; • Establish the Institution of the Ombudsman for Private Entrepreneurship with the aim to protect the rights of private enterprise from the Republic of Moldova; • Stir social dialogue between the authorities and business entities based on the principles of equality. • Optimize the procedures of mandatory reporting to state and public institutions on behalf of business entities; • Revise the list of chargeable services offered to private enterprise by public authorities, create a Register of chargeable services, and simplify the procedure of their providing; • Create an integrated, efficient system in order to protect fair competition in business; • Revise and improve the system of offering government subsidies and support to entities specializing in agriculture and other fields; • Complete the process of integrative codification of the fiscal legislation.
Optimization of the fiscal system	<ul style="list-style-type: none"> • Introduce an integrated taxation procedure for natural persons simultaneously increasing tax allowance to the level of the base salary; • Abolish prior VAT collection while importing equipment and machinery; • Gradual shift of social security payments from the employer to the employee. • Simplify the VAT management system; • Improve the process of development of fiscal policies; • Liberalize the market of medical insurance.
Consolidation of the rule of law	<ul style="list-style-type: none"> • Exclude any form of property expropriation beyond judicial procedures; • Separate the budgetary process of judicial courts and their distinct administration within the overall system of the public budgeting process. • Develop clear policies of protection of all forms of property, including intellectual, patrimonial, artistic property, etc. • Consolidate the system of mandatory execution of judicial decisions; • Develop alternative forms of solving work litigations.
Development and efficient use of the human capital	<ul style="list-style-type: none"> • Liberalize the system of wage payments by applying the single mandatory indicator: the national base salary; • Develop the legal framework of negotiation and establishment of the base salary; • Abolish the maximum limit of social security contributions maintaining the mandatory maximum limit; • Enact legislation regarding the practice of granting "social packages" by employers. • Adjust the system of economic education and professional training to the needs of the national economy; • Balance the interests and rights of employers and employees in order to assure protection of both parties; • Develop the legal framework and promote positive experience in protecting business managers; • Develop and stimulate the national system of optional retirement plans;
Promotion of investments and facilitation of foreign trade	<ul style="list-style-type: none"> • Create insurance plans to protect mortgage investments; • Assure non-discriminatory, equal rights to all non-resident economic agents regarding procurement of agricultural estates; • Offer grants for promotion of locally produced goods outside the country; • Decentralize the system of land tenure by delegating regulating functions from the central level to the national one. • Consolidate the export potential of Moldovan companies by organizing exchanges and transfers of knowledge and technologies; • Promote diversity in financial instruments and institutions; • Reform and develop the system of transportation infrastructure.

PRIORITY 1:

Reducing administrative barriers, state intervention in economy and ensuring a competitive environment

The reform of regulatory policies has shaped a strategic direction for improvement of the business environment from the Republic of Moldova. The first steps in this direction oriented towards simplification and rationalization of the legislative and administrative system produced positive effects and compliments on behalf of the business community and international experts.

However, numerous administrative barriers – especially in the construction licenses, taxation and cross-border trade – rest to be even nowadays serious constraints for the business environment. Administrative barriers are among the highest in the Republic of Moldova comparing to other states in Eastern Europe. Numerous reports certify the lack of equal opportunities for private enterprises on the market of the Republic of Moldova while the small and newly created companies being the most vulnerable category in terms of regulation, reporting, and state protection.

The substantial part of time is wasted, in their case, on overcoming administrative barriers or on efforts to avoid abusive interventions of some bureaucratic state structures. Numerous control institutions serve, in reality, as leverages of an administrative and economic systems characterized by exaggerated transaction costs, a fact that makes the entrepreneurs to search for diverse schemes for taxation optimization preferring to pay different non-official taxes to state controllers rather than directly to the state.

There is a series of factors which have a negative impact upon the business environment in the Republic of Moldova, among which we shall mention: selective law application, excessive state intervention in economy, lack of professionalism among public servants, persistence of bias in judicial decisions, unpredictable changes produced in the legal framework regarding business, and others. All these disadvantage the attractiveness of Moldovan market for foreign investors and impact the competitiveness of Moldovan enterprise.

OBJECTIVES FOR 2009

1. Implement the Regulation Impact Analysis system
2. Apply presumption in the relations between the Agency for Competition Protection and private business
3. Establish the office of the ombudsman for the business community
4. Materialize the social dialogue between the government and the business community of principles of equality

OBJECTIVES FOR THE NEXT 3 YEARS

1. Optimize the procedures of mandatory reporting of business to state institutions
2. Revise the paid services delivered by the public authorities
3. Create an integral and efficient system of competition protection
4. Revise and improve the system of governmental subsidy and support in accordance with the market economy principles
5. Finalize the codification process of the fiscal legislation

OBJECTIVES FOR 2009

Objective 1: Implement Impact Analysis Regulation system

Problem

The objective of reducing administrative barriers was only partially achieved by adopting the „Ghilotina - 1“ legislation, a policy developed by the government in the last decade. The positive results achieved until now in this field are not fully satisfactory for the business environment. The number of controlling institutions was insignificantly reduced (from 68 to 56) and the forms of control remained practically unaltered keeping those 48 forms of reporting and control. There is no practical continuity in „Ghilotina 1“ and „Ghilotina 2“ processes.

Problem sources

The government still keeps monopoly over the control functions.

Under the conditions of incomplete reforming of the central administration, some new regulations on business emerge, though without being analyzed in terms of their impact and

without necessary consultations with the local business representatives.

Numerous regulation and control functions depend on the decisions of the executive branch rather than legal framework, a fact that increases instability of the regulation framework and lack of consistency in regulatory reform.

Recommendations

Any action of regulation has to be performed within the legal framework.

Creation of a stable and objective

system of impact assessment of any form of regulation in enterprise.

New regulations have to be coordinated in cooperation between the government and representatives of business structures.

Impact

Overcoming the problem will result in stability of the business environment, cut in business management costs, separation of controlling bodies from the business sector by establishing clearly defined rules, and reduced level of corruption.

At the same time, partnerships between the state and the enterprise based on trust positively influence

business administration and reduce transactional costs. Introduction of any new regulations has to occur within a clearly established and uniform procedure inspiring trust in the rule of law within the society.

In the long run, stability in established regulations help decrease state intervention into private businesses, thus improving efficiency of individual initiatives, bringing about economic growth and consolidation of responsibility.

Objective 2: Apply the presumption of innocence in relations between the Agency for Competition Protection and private business

Problem

Relations between state institutions and private companies are not set as between actors with equal rights, equally protected by the law. Oftentimes, private enterprise is perceived as an offender whereas public authorities as an ultimate benefactor. Hence, against the principle of presumption of innocence, certain public institutions are empowered to control economic agents deciding upon their level of guilt and applying immediate sanctions.

The existent political and administrative systems vest certain public authorities with triple competence according to which they perform the functions of controllers, judges, and judicial executors simultaneously.

These are the abnormal circumstances in which Moldovan private companies are to demonstrate their innocence in court. Thereby, the burden of providing proofs is completely falling on the shoulders of eco-

nomical agents. Furthermore, the activity of many public agencies is based upon the false hypothesis that economic agents are to prove their innocence as long as they wish to activate.

Thus, according to the current legislation any reorganization foreseen by the law for registered companies contains the obligation to receive the ascent of the Agency for Competition Protection (ACP) regarding „the absence of market abuse” or, economic agents have to provide exculpatory evidence to ACP even without committing any infraction within a 30-day procedure.

This makes hundreds of economic agents dependable on the Agency, whereas the procedure does not ensure decisive actions in case of real monopoly. Moreover, providing if the clerks adopt any unfair decisions, they do not take any responsibility.

Problem sources

This situation draws from the wrong belief that citizens and companies are to be in the service of the state and not vice-versa.

For the sake of the „corporate” interest of a single state institution, the interest of private enterprise and the principle of innocence are totally ignored. Thus, public institutions have the right to decide upon the culpability of economic agents avoiding judicial institutions.

This right and lack of responsibility in case of an incorrect decision result in misuse of power on behalf of public institutions and increases transactional costs.

Recommendations

Any decision regarding the culpability or innocence of an economic agent has to be established exclusively by the court. The burden of the proof has to be transferred from the economic agent to the public institution. It is necessary to implement a mechanism of personal and institutional responsibility of public servants and public institutions for the undertaken actions.

Impact

Equality in rights of economic agents and public institutions will reduce the number of abuses on behalf of the institutions, will protect business environment from abusive actions of public servants, and will essentially reduce the number of erroneous actions on behalf of public institutions.

Objective 3: Establish the ombudsman function in order to protect the rights of enterprise from the Republic of Moldova

Problem

Besides imperfect legislation that affects business environment, another major problem is related to the negative experience of relationships of public servants and business people.

The latter suffer from abusive behavior on behalf of representatives of various public institutions that subjectively interpret certain stipulations and legal norms imposing fines and sanctions on enterprises.

The ambivalence of the law and vulnerability of businesspeople transforms them into easy targets of different entities and public institutions empowered with control competencies. The hostile attitude of public institutions against business environment remains to be a practice rooted within the institution rather than stipulated within the legal framework.

Problem sources

Ambiguous legislation allows certain dual interpretations on behalf of the authorities empowered with control competences in relation with the private business environment.

Impunity of public servants, aware of the fact that their abuse towards the representatives of the business environment will not be punished,

results in actions encouraged by the current political-administrative system.

Maintenance of a restrictive regime in relations between public servants and entities of private business relates to the intervention of the state in economy. These deficiencies cannot be overcome through adoption of new bills, but rather through some systematic and consistent reforms of the state functions.

Recommendations

Setting up the ombudsman function for the business community, creation of the institution that would represent the rights of the

enterprise as a proof of change in attitude of the state towards private initiative.

Impact

We estimate that the Ombudsman will be the advocate of the rights of the business community in its relationships with the public autho-

rities. Having power of attorney to act in certain crisis situations would contribute to protection of private property and insure the principles of equality of the business on the one hand, and public authorities, on the other.

Objective 4: Stir social dialogue between the authorities and business entities based on the principles of equality

Problem

In present, the only legal form of cooperation of the business environment with public authorities is expressed in the social dialogue, established between the Government – employers' associations – trade unions, where the employers associations and trade unions however have a simple consultative function.

All legislative initiatives that directly impact the business environment are as a rule prepared by certain public servants while the requirement to discuss them with the business community is formal and insignificant.

Consequently, the Parliament continues to pass new bills and the Government takes new decisions

that reflect exclusively the vision and interests of these public authorities rather than those that belong to the business community.

Oftentimes, this situation is created due to the fact that state interests are mixed up with the interests of some agencies representing the central government.

Corporative interests and lack of efficient means of communication with the business community makes public servants to think about means of controlling the business community rather than measures of improving efficiency of decisions aimed at economic development.

Problem sources	Recommendations	Impact
<p>Unclear definition of the limits of state intervention in the sphere of private business leads to the distortion of state interests from public interest, conveyed by the authorities of the state. Often, development of certain bills and governmental decisions, that would impact some business groups, occurs without active involvement of the business environment on the principles of equal participation.</p> <p>Thus, business feels itself excluded from the decision-making process of the state. Moldovan business community does not have a single voice in relations with authorities; it is not clear who has the mandate to represent the entire business community or a certain part of it in relations with public authorities.</p>	<p>Any legislative initiative that aims at regulating overall or specific framework of business regulation has to be a result of compulsory dialogue with business associations representing the community.</p> <p>Business associations have to participate in legislative procedures of the Government and the Parliament.</p>	<p>The legislative procedure in the field of business process will reflect both the state interests and those of the business community.</p> <p>The Parliament when adopting laws will take into account both the opinion of the Government and business community treated as an equal partner in the legislative process.</p>

OBJECTIVES FOR THE NEXT 3 YEARS

Objective 1: Optimize the procedures of mandatory reporting to state and public institutions on behalf of business entities

Problem

The mandatory reporting system imposed to business entities is totally inefficient, contradictory, and even illegal. In reality, it becomes an additional form of taxation of economic agents.

The tens of mandatory reports solicited from the private business contributes as a whole to the increase in prices of business administration creating thus major obstacles in the activity and functioning of the business community.

State agencies impose on the private business their own obligations of documentation and evaluation in the sectors they have to regulate.

Moreover, numerous agencies and state entities do not offer consulting and guidance services for the business community but focus on identifying deficiencies so that later they would exert their harsh sanctioning function regardless the intention of the entity.

This oversimplified, negative understanding of the functions exerted by the state entities results in abusive and corrupted behavior among public servants.

Due to the absence of a modern integrated system in the Republic of Moldova, the quality of data collected by most of state agencies is very low and does not allow for efficient and responsible decision-making.

Problem sources

The mandatory reports presented by private business companies to the national Bureau of Statistics, State Fiscal Inspectorate, the National Bureau of Social Security, Labor Inspection, etc. are formal, costful, and unreliable agencies.

Information costs are placed into the responsibility of the private sector imposed to exert functions improper for a business entity.

The outdated system of information and mandatory reporting is no longer justified as long as we wish to optimize functioning of the business sector. In addition, it is obvious that current reporting system represents a major source of corruption.

Numerous reports imposed by state agencies are repetitive and come into contradiction with each other due to the fact that these agencies cannot coordinate fields of competence among each other.

Recommendations

Auditing of the mandatory reporting system.

Codification of information solicited from economic agents and launching of an integrated informational system.

Creation of a „single office” responsible for mandatory reporting procedures and maximum limitation of number of

institutions empowered to collect information and create an electronic system of reporting for business.

Implementation of modern techniques of data collection, changing frontal statistics with survey statistics.

Ensuring access of public institutions and business community to the national and European integrated informational system. Integration of the national system into Eurostat.

Impact

We anticipate a visible and rapid growth of quality and relevance of data collected from business entities. The simplification of the reporting system will lead to a significant decrease in business administration costs and will increase efficiency of business administration reducing a considerable part of the existent barriers.

State agencies will have a more responsible behavior in their relations with economic agents. They will be oriented

towards assessment of policy efficiency rather than interventions into the business sector.

Ambiguity in information data collection will be avoided. The efficiency of taken decisions will grow once the data they rely on is more accurate.

The state institutions will use the data collected by the single institution – the national Bureau of Statistics, without double-checking or forcing private enterprise to deliver additional information leading to elimination of a direct contact between bureaucratic structures and private business entities.

Objective 2: Revise the list of chargeable services offered to private enterprise by public authorities, create a Register of chargeable services, and simplify the procedure of their delivery

Problem

The phenomenon of chargeable service delivery imposed by public authorities has reached unbelievable proportions in the Republic of Moldova. Currently, according to the existent data, we can identify nearly 6,000 chargeable services provided to Moldovan businesses on behalf of public institutions.

The majority of public institutions see the delivery of these services as a supplementary source of income to the institution's budget rather than a function necessary to contribute to business development.

As a consequence, the quality of these services is quite reduced being delivered in the absence of loyal competition; payments collected from these services generate corruption, multiple abuses and wasted resources.

We estimate that currently the payments collected from these services are twice higher than the income tax collected by the economic agents with the difference that these services are paid before any profit is gained by the private enterprise in the absence of an adequate legal framework.

Problem sources	Recommendations	Impact
<p>Chargeable services have become an „unofficial” form of additional taxation and fees of the private business.</p> <p>The services delivered by state agencies are assessed by the business community as being unqualified, unprofessional, and offered at inadequate prices.</p> <p>The current system allows state agencies to introduce new chargeable services without offering any rationale regarding their price, type, or quality indicators.</p> <p>Most of the services offered by the state agencies are, in their essence, additional taxes which are not regulated by the Fiscal Code.</p> <p>Lack of a clear policy and total „freedom” of state institutions in identifying services and charges.</p>	<p>Each existent or suggested chargeable service has to be analyzed through Impact Analysis On Business Environment.</p> <p>Abolish the right of providing chargeable service to private enterprise on behalf of state institutions through legal measures.</p> <p>The mandatory payments should be treated exclusively as taxes and have to be included in the Fiscal Code of the Republic of Moldova.</p> <p>Controlling and supervision bodies have to recognize only those taxes stipulated by the Fiscal Code.</p> <p>Withdraw the right of imposing chargeable services on behalf of controlling and supervision agencies.</p>	<p>These solutions will improve transparency and trust in relations between public institutions and private economic agents. Therefore, the administrative pressure upon the business environment will significantly decrease.</p> <p>Public institutions will be oriented towards the settlement of the problems of economic agents rather than fundraising.</p> <p>Elimination of „unofficial payments” will insure good governance and efficiency of decision-taking.</p> <p>These measures will contribute to codification of taxes and their legal recognition on behalf of economic agents.</p>

Objective 3: Create an integrated, efficient system in order to protect fair competition

Problem

The number of policies and required authorizations still remains a burden for business entities and negatively impacts competitiveness of Moldovan goods.

Moldovan legislation regarding competition protection is based on the model developed in Russian Federation, in which monopoly-struggling and non-loyal competition practices are regulated by the same legislative act.

European practice treats these two phenomena in a different way providing their separate regulation and establishing different mechanisms for their prevention and elimination. Stipulations of the current law are nothing else than a tendency to maintain the Russian model of regulation by taking over some definitions and notions from the European practice.

This fact creates a lot of confusion when applying the law since there are many conceptual differences between norms adopted in Russian Federation and Europe, hence it is recommended not to mix these norms but to plead for one of the forms of construction of the competition regulation system.

Taking into consideration the integration aspirations of the Republic of Moldova with the European Union, Moldova should opt for the same standards in the field of competition protection.

We have to mention that at the moment the term of „non-loyal competition” is erroneously approached in the Republic of Moldova, thus confusing the terms „monopoly-fighting practices” and „non-loyal competition”.

This confusion as well as application of the term „illegal competition” instead of „non-loyal competition” contradicts the legislation of the Republic of Moldova as well as the doctrine of national and international legal practice.

Problem sources

The intention to legislate the phenomenon of concentrated practices, agreements, anti-competition decisions and capital concentrations is welcome. However, the mechanism by which these phenomena can be identified and officially examined by the Agency is not clear, which leads to numerous difficulties in interpretation and practical implementation of these norms.

The European Union has much expertise in regulating and interpreting anti-competition practices. It would be right for Moldova to take it over.

The procedure and basic criteria for determining the dominant position of an agent on the market is not clear.

Providing that the statistical method is used, it will not clearly identify the share of an economic agent, not registered on the territory of the Republic of Moldova and consequently not presenting financial reports to the National Bureau of Statistics regardless the fact that its products have considerable quota on the market of the Republic of Moldova.

It is known from practice that such economic agents can influence competition on the market especially when it comes about the procedure of „recommended prices” or limitation of the market space

for certain products.

Certain stipulations in the legislation of the Republic of Moldova foresee that violation of competition norms results in either penal or administrative punishment, whereas in case of non-loyal competition violators are subject to civil or penal punishment.

It is necessary to determine the exact role of the National Agency for Competition Protection in determining the responsibility especially in penal procedures.

It is also necessary to identify the steps an economic agent needs to take in case of damage from non-loyal competition. Shall they address into court or shall the Agency pronounce the decision upon the case prior to this.

There is no clear procedure that would regulate complaining to the authorities, responding to complaints, as well as initial, intermediate, and final steps of the investigation process.

Lack of description or explicit reference to the procedure of contesting the decisions of the Agency taking into consideration that these can be of sanctioning, guiding, approving or rejecting matters, etc.

The quantum of fines is established in the way that it will not allow a correct and objective appraisal of the imposed sanctions on business entities.

Recommendations

All modifications to the law on competition protection have to be made

through effective and large consultations with representatives of business community based on the principle of guarantee and protection of business interests.

Impact

Application of legislation in the field of competition protection based on the

principle of protection and business encouragement will allow promoting a fair competition environment and will increase the level of economic competitiveness.

Objective 4: Revise and improve the system of offering government subsidies and support to enterprises specializing in agriculture and other fields

Problem

The increase in financial capacity of the state budget brought hope that it would allow to support the consolidation of private enterprise and improve competition and efficiency of the local business environment. However, some transfers of subsidies still occur in the absence of clear principles and appropriate policies that would ensure assessment of this aid; it, consequently leads to wasteful use of public funds or their misuse in order to support some political goals.

Unjustified subsidy allocation creates numerous cases of non-loyal competition and high expectations among those economic agents who benefit from this support. Thereon, the whole system becomes connected to a large network of clients opposing its initial goals.

In 2004-2007, subsidies in agriculture, worth nearly 1 billion MDL, produced positive effects for the field. However, almost 90% of the subsidies in the field of animal breeding were disbursed to large economic entities, who produce only 10% of the whole sector production.

Another example relates to the state policy in aviation. Direct support of one of the entities, has created an inefficient system of public expenditures, accumulation of unjustified debts, and creation of a non-competitive system supported by non-loyal relations with the state administration in report with other market actors.

Problem sources	Recommendations	Impact
<p>The state does not distinguish the support of certain economy branch and financing some groups of clients at times representing interests of some state enterprise.</p> <p>In absence of long-term policies state institutions are forced to take ad-hoc decisions which mean rapid state subsidy expenditure without ensuring creation of a positive long-term impact.</p> <p>Decisions regarding subsidizing of some branches of national economy are taken disregarding the impact analyses and economic rationale being based on short-term political interests. As a rule, business entities do not participate in policy making and are not consulted upon the decisions regarding finance allocations from the state budget.</p> <p>Currently, there is no legislative framework in the Republic of Moldova that could regulate the subsidizing principles; each state agency develops its own principles and criteria of providing financial aid whereas the results are frequently not coordinated with investments of the state.</p>	<p>Develop legal regulations regarding subsidy allocation and their differentiation from budgetary aid in case of crisis.</p> <p>State subsidies should follow achievement of long-term economic objectives which have to rely neither on political situation in the country nor on the political preferences of the decision-taking authority.</p> <p>The subsidies have to contribute exclusively to the growth of competitiveness and exporting potential of subsidized branches rather than their maintenance under state control. The decisions concerning distribution of subsidies to certain economic sectors are to be taken in a participatory consulting framework and have to meet the principles of economic efficiency, transparency and competitiveness.</p>	<p>State subsidies will contribute the growth of competitiveness of local entities creating barriers to non-loyal competition and financial support of inefficient enterprises.</p>

Objective 5: Complete the integrative codification of the fiscal legislation in Moldova

Problem

Moldovan Fiscal Code includes a considerable part of taxes and fees paid by economic agents, a fact that makes the system of fiscal and business administration comprehensive. Yet, there are many additional payments and fees imposed by state agencies according to various normative acts and bills.

In many cases these payments are minor but the payment procedures are time-consuming and take much effort, thus becoming much more costly. These fees become an administrative and fiscal burden for business entities; expenses from these procedures are several times higher than the income got by the controlling authority collecting them.

Problem sources

Existence of several laws regulating the taxation system.

Administrative regulations of the fiscal system are

frequently part of various acts with recommending character, Ministry directives, and other non-legislative acts (letters from the Ministry of Finance) rather than the fiscal code.

Recommendations

All mandatory payments of the private sector have to be treated as taxes and have to be introduced in the Fiscal Code.

In most cases it is necessary to perform analysis of the impact these fees will have upon business entities so that assessment of efficacy and utility is carried out including assessment of the rate between the real expanses of entities and costs of each of the payments separately.

Improvement of procedures and payments of direct taxation. Starting with 2010 everything related to fiscal administration should be regulated exclusively by law.

Impact

Introduction of these proposals would bring about optimization of the fiscal system as a whole. Reduction of

adjacent costs of tax payment established in the fiscal code would contribute to avoidance of non-official taxation for business entities.

All fiscal relations of the economic agents with the state are described in a single law – the Fiscal Code.

PRIORITY 2:

Optimization of the fiscal system

Recently some positive changes have been registered in the taxation policies aimed at reducing the fiscal burden. However, there are numerous problems linked to tax administration and legislation.

The relations between private enterprise and fiscal authorities (Fiscal Inspectorate) are perceived by the entrepreneurs as a potential threat and risk for the business stability regardless the size or history of companies rather than consulting.

Compared with fiscal legislation of other countries from the region, the Moldova Fiscal Code continues to be quite sophisticated and incomprehensive and the frequency of introducing modifications and amendments essentially reduces the effects of „fiscal liberalization”.

This situation narrows the horizon of planning for the business environment which is already restricted, thus reducing the attractiveness of the Republic of Moldova for long-term investments.

OBJECTIVES FOR 2009

1. Introduce an integrated taxation procedure for natural persons simultaneously increasing tax allowance to the level of the base salary.
2. Abolish prior VAT collection for imports of machinery and equipment.
3. Gradually shift of social security payments from the employer to the employee.

OBJECTIVES FOR THE FOLLOWING 3 YEARS

1. Simplify the VAT management system.
2. Improve the process of development of fiscal policies.
3. Liberalize the market of medical insurance.

MEASURES FOR 2009

Measure 1: Introduce an integrated taxation procedure for natural persons simultaneously increasing tax allowance to the level of the base salary

Problem

The current taxation system of natural persons represents a penalty system of salary growth. The fiscal burden rises geometrically together with the increase in an employees' salary, a fact that serves as an additional constraint for the wage growth.

Thus, wages of 10% most highly paid employees are six times higher than wages of 10% poorer paid. At the same time, the gradual taxation system is unjustifiably complicated and creates difficulties to those who work more than one job simultaneously. The effective taxation in natural persons is nearly 7%.

The current system of progressive growth of the income tax of natural persons does not fulfill its social and economic function but only plays a role of discouragement of salary growth and does not allow the legalization of payments to employees.

Problem sources

The current system penalizes employees' salary growth. This system is rather tangled for private agents in terms of administration and accounting. The gradual approach confuses the whole taxation system thus generating such problems as estimation of negative taxes and tax evasion and leads to appearance of „wages in envelopes“. The employee is not motivated to sign a contract with the employer.

Recommendations

Introduce tax allowance equal to the base salary of the first 10% of employees.

Introduce a unified 9% VAT tax in natural persons.

Impact

Introducing a unified tax rate on income tax will lead to essential simplification of the tax administration system, thus impelling the gradual withdrawal of informal revenues paid by the employers. Similar experience of other countries proves that the implementation of the unified tax leads to a 25% increase in budgetary revenues in the first 3 years of implementation.

Our recommendations do not suggest changing the size of the fiscal burden but improving its redistribution, instead. By applying this system of unified tax, the Republic of Moldova would set a positive precedent at the European level. We estimate that introduction of such a system will increase the taxable base thus stimulating salary growth in economy and labor productivity.

It would protect the most disadvantaged employees (first decile of employees will be exempted from taxes and the following deciles will pay an insignificant rate), thus offering a substantial support to the employees with the smallest revenues.

Measure 2: Abolish prior VAT collection for imports of machinery and equipment

Problem

The use of the term „zero rates on imports of machinery and equipment“ is erroneous and does not reflect its economic and legal connotation, a fact that creates important impediments in correct implementation of legislation. Since the VAT represents a tax paid by consumers this is perceived by economic agents in favor of the state. Because over 70% of the products consumed in the Republic of Moldova are imported, the highest rate of VAT originates from imported products.

In order to simplify the procedure of VAT collection, the Government decided to collect it not in the process of selling-acquisition but at the moment of its import in the country. Therefore, economic agents are to pay this tax (VAT) at the border and only after their selling they can recover their paid VAT.

The period between the VAT payment at the customs and vending of the actual product re-

presents the period when economic agents in Moldova credit without the state interest rate.

In the case of consumption products, this period equals three months and in the case of machinery and equipment – from 5 up to 15 years. Thus, a fiscal administration procedure was transformed into an instrument of forced constraint of the economic agents to credit the state without an interest rate for a period of up to 15 years in case of some investments.

This situation creates a situation of frustration and discontent among the private entrepreneurs who are unmotivated to invest and modernize their production capacities. As a result, we notice the increase in investment prices with nearly 20% against the initial estimations. This fact is manifested through reduced investment activity of economic agents and as result the lack of durable economic growth.

Problem sources	Recommendations	Impact
<p>In an attempt to find solutions to one of the problems of fiscal administration (more efficient VAT collection), the system generated a new one, i.e. economic agents are under constraint to credit the government.</p> <p>Collection of VAT prior vending leads to a 20% increase of the investment costs.</p> <p>Expensive investments increase the cost of locally produced goods, boost inflation and reduce competitiveness of local producers on both internal and external markets.</p> <p>Unwillingness to make investments in Moldova impacts attractiveness of the national economy produces a decrease in number of employees (about 15.000 employees annually) harms the potential of economic growth of the Republic of Moldova.</p>	<p>Abolish prior VAT collection (at the customs) for machinery, equipment, and technologies.</p> <p>Ensure a balanced fiscal administration that does not imply forceful crediting of the state by economic agents.</p> <p>Create special accounts for reimbursement of VAT payments in case of imports of machinery, equipment, and technologies.</p>	<p>Abolishment of prior VAT collection for imports of machinery and equipment would allow a 20% remission of financial means of the economic agents. These funds could be reinvested accelerating economic growth and bringing more budgetary revenues.</p> <p>Also, the investment costs would decrease essentially fact that will contribute to the growth of competitiveness of locally produced goods and reduction of production costs.</p> <p>The „losses“ from immediate missed VAT collection will be compensated through the increase in collection from income tax of the legal persons (increase in number of employees and payroll growth) and VAT of local production; on a long-term the missed VAT at customs will be collected within the country.</p> <p>The total effect will be positive both for the public budget and economy on the whole. In 2-3 years the VAT collected from local producers will increase by at least 20-30%.</p>

Objective 3. Transfer the tax of social protection from employer to employee

Problem

Social security regulates relations between the National Social Security Bureau and the citizens who are insured. Eventually, each insured person receives benefits in form of social payments (pensions, allowances, etc.) having to make transfers to the NBSS in form of social contributions.

Due to a negative heritage of the Soviet regime regarding insurances, the hardest burden of contributions to the budget of social insurances is left to the employers.

This situation creates many problems such as: the employer pays larger amounts for salaries than the employee perceives; the link between the insured the insurer is broken (the employees not paying directly to the insurance fund are not motivated to find out about their contributions), the employer has administrative and penal responsibility for the correctness of transfers towards social security budget (in fact they have to deliver free-of-charge a service that is improper to them, performing the role of tax collectors).

Additionally, the current legislation does not foresee the recovery of social contributions that overcome 5 base salaries.

Thus, if a person is hired in 2 or more places and the contributions to the social security fund will exceed the maximum possible limit, he cannot recover his money.

Problem sources

In relation with the insurer (NBSS) and the insured (the employer) there is a third person who intervenes, – the employer, who

should actually have no forced attribution to fiscal collection, a fact that brings about additional activity costs.

Recommendations

The economic agent has to have only one relation in report to its employees, and that is of salary com-

pensation.

The relations between employees and NBSS are established individually without the direct involvement of the employer.

Impact

In case of elimination of the employer from the relation between the employee and NBSS, we

estimate a real improvement will take place in the system of social security and relations between the employee and the employer.

Thus, the employee will get to know what the real amount paid for his work is. The employee, in this sense, will be the main actor interested to know what happens with his contributions. Businesspeople will be exempted from fulfilling tax collecting functions fact, which will allow the optimization of the production costs and simplification of the accounting system.

OBJECTIVES FOR THE NEXT 3 YEARS

Objective 1. Simplify the VAT management system

Problem

The procedures of VAT reimbursement at exporting goods represent a very difficult process marked by subjective factors and factors difficult to be analyzed.

Thus, the legal framework does not foresee clear procedures of VAT reimbursement but is based on voluntary decisions of commissions for reimbursement that can deliberate upon the conditions of reimbursement.

Against the legal provisions, the economic agents frequently have to wait for a long time (6-9 months)

until they manage to receive the allotted sum but there are also companies that cannot reimburse their payments made for VAT at all.

In this situation we can speak of forced crediting of the Government with thousands of millions of lei on behalf of the private economic agents.

The procedures of VAT reimbursement contradict the liberalization of economy and reduce the motivation of the business to export goods at the same time leading to increase in transactional costs of local goods.

Problem sources	Recommendations	Impact
<p>The Government applies a kind of 'presumption of culpability' upon those business entities that intend to return their VAT from the state budget.</p> <p>Economic agents are forced to present an excessive set of documents to prove their credibility and lack of „criminal“ intentions. The situation gets worse when the Government perceives the reimbursement of the VAT as losses of the state budget trying to delay these decisions.</p>	<p>It is necessary to clarify and balance the functions of state entities with the interests of the private business. The abolishment of categories of VAT payers in regards to the eligibility for VAT reimbursement in order to ensure a fair treatment for all economic agents.</p> <p>The fiscal inspectorate should be dealing with tax collection; identifying committed illegalities should be exerted only by specialized bodies that would deal with VAT reimbursement of investments and imports of machinery, equipment, and technologies.</p>	<p>Simplification of procedures of VAT return will spur exports. It will create a system of cooperation and partnership relations between the state bodies and economic agents. It will facilitate the improvement of the business environment thus diminishing private business administration costs.</p>

Objective 2. Improve the process of development of fiscal policies

Problem

The current fiscal system is quite misbalanced being responsible to perform only the attributes of tax collection for momentary needs without encouraging strategic investments in business, or long-term development of the private sector but rather achievement of certain smaller-scale short-term results.

The emergence of new fiscal regulations was neither the result of negotiations with business community nor the product of a systemic approach but rather the „seasonal product“ of the state bureaucracy.

The „budgetary expenditures“ component prevails in the fiscal state policy, hence less the need to institute and develop a national taxation system that would be combined with strategic goals that serve as objectives of durable economic growth.

Problem sources

There is lack of an institutional medium and long-term planning tradition of the economic policy objectives in the Republic

of Moldova.

An effective dialogue between state and private sector is also absent because both parties suspect each other making the existent communication channels unsatisfactory.

The relations between the state and business community do not respect the principle of „equality of parties“. When formulating fiscal policy objectives the corporative interests of the central administration prevail including the granting of fiscal facilities and benefits to some groups of clients in the absence of an overall balanced and equidistant business approach.

Recommendations

It is necessary to develop a long-term fiscal policy (10-15 years) in the Republic of Moldova.

The obligation to negotiate with the business community in an institutionalized framework will allow transparent influences on fiscal policies on behalf of registered business.

Impact

Ensuring state and business interests through consensus agreements signed at the national level.

Exclusion of adoption of new fiscal regulations without preliminary consultation of the business environment and public presentations to potential target groups.

Maximum transparency has to be ensured when adopting any new fiscal or other type of regulations.

Objective 3: Liberalize the medical insurance market

Problem

Medical insurance is one of the multiple forms of existent insurances in the Republic of Moldova. However the current centralized system does not allow diversifying forms of insurance that would meet the needs and possibilities of the insurers.

Thus, each person contributes with fixed sums or parts of the salary (3%+3%) and benefits of equal forms of medical services.

The current medical insurance system is more oriented towards ensuring the social equity than satisfying the individual needs of the insured. Lack of appropriate de-monopolization of the current medical insurance system does not allow its optimization.

Problem sources	Recommendations	Impact
<p>The medical insurance system is perceived as an additional form of taxing.</p> <p>Medical insurance is not perceived as a service offered by market economy subjects but rather is treated as a service offered by state institutions from taxes.</p>	<p>Promote the understanding that medical insurance system is a service offered in conditions of competition between suppliers.</p> <p>The liberalization of the social insurance system by granting the right to the insured to choose the company and the insurance plan.</p> <p>The state has to apply its policy only to: 1) provide mandatory insurance of the employees by the employers 2) establish the minimum mandatory insurance rate. All other relations should be regulated by the market, competition, and devotion of the employers to its employees.</p>	<p>Liberalization of the medical insurance system will allow the development of the insurance system in the Republic of Moldova. It will increase competition between insurers and contribute to the diversification of insurance services and optimization of the functioning of the system.</p>

PRIORITY 3:

Consolidation of the rule of law

The process of harmonization of the legislation of the Republic of Moldova to the norms of the European Union generated a positive vector in the development of national economic legislation even though until now the result is still very modest.

The uncertainty brought by the expectations for modifications in the current legislation had a negative reflection upon the fiscal discipline, business planning, and attraction of long-term investment even though these modifications had a positive character.

A special concern of the business community is referred to free interpretation of laws and their selective application, which submines the trust in an impartial and fair judicial system.

Respect of property rights and fair law application bring out the concern of the majority of companies especially in regards to the settlement of problems emerged between economic agents and the state.

OBJECTIVES FOR 2009

1. Exclude any form of property expropriation beyond judicial procedures.
2. Separate the budgetary process of judicial courts and their separate introduction in the state budget.

OBJECTIVES FOR NEXT 3 YEARS

1. Develop clear policies of protection of all forms of property, including intellectual, patrimonial, artistic, etc.
2. Consolidate the system of mandatory execution of judicial decisions.
3. Develop alternative forms of solving work litigations.

OBJECTIVES FOR 2009

Objective 1. Exclude any form of property expropriation beyond judicial procedures

Problem

The respect for the principle „equality of parties“ in any type of aroused disputes represents a definitive criterion for democratic states. Respectively, the right of a state institution to penalize economic agents by confiscating some products means in reality that they apply a law and verify the correctness of its application which discriminates the other party.

Only courts have the power to decide upon the illegality or correctness of implementation of a certain law. State authorities have to prove the culpability of some private business activities in legal hearings; private business does not have to demonstrate the legality of its activity.

Problem sources	Recommendations	Impact
<p>The national legislation attributes the implementation of the current law overseeing competencies to state agencies that are responsible for their implementation which creates an imminent conflict of interests.</p> <p>This situation encourages state authorities to apply sanctions without having final decisions of courts justifying their existence through imposing of sanctions and supplementary costs to business entities interpreting the legislation in their own interest. By creating favorable conditions for their own functioning, this type of behavior of some state agencies discriminates the private sector and undermines the role of independent justice.</p>	<p>All state entities have to be treated as subjects with equal rights as private ones; only the court can decide upon the legitimacy of certain actions.</p>	<p>Business entities will not have to take illegal actions to ensure their functioning; the entire burden of trial disputes between private companies and regulation agencies will be carried by the accusing part, having to prove in trial the existence of illegal actions.</p>

Objective 2: Separate the budgetary process of judicial courts and introduce them separately in the state budget

Problem

The law on judicial organization foresees a financing mechanism of judicial institutions which ensures their independence against political or administrative factor.

In practice, however, judicial institutions are financed by the law on budgetary process, which makes them financially dependent on the institutions subordinated to the government, hence vulnerable.

In case of litigations of economic agents against state entities, the compensation payment is ensured by the Ministry of Finance which also provides financing of the judicial system. Eventually, there is a direct conflict of interests in which judicial organs cannot avoid taking decision in support of those who provide their financing.

Problem sources

Lack of separation of judicial institutions from institutions subordinated to the government. Existence of conflict of interests, since bodies supposed to ensure justice are frequently dependent on decisions of a party involved in the process.

Recommendations

Creation of an independent financing system of the judicial branch regulated by the legal framework on judicial organization.

Impact

Independent financing of judicial institutions will consolidate the independence and professionalism of the courts and will raise the level of their independence from the political power.

The situation of conflicts of interests where a party involved in the process can influence the judicial process either directly or indirectly disadvantaging the other party.

OBJECTIVES FOR NEXT 3 YEARS

Objective 1. Develop clear policies of protection of all forms of property, including intellectual, patrimonial, artistic property, etc.

Problem

Legal framework in the field of property rights discourages local and foreign investments having a negative impact upon economic growth.

State policies regarding financial support of some strategic sectors (IT, cinema, and music) clashes with the incapacity of the state to protect the right of intellectual property.

Protection of property rights has a much more

significant impact than any other economic/ financial incentives.

Since there is no practical framework to regulate protection of property rights, the economy of the Republic of Moldova becomes uncompetitive even on the regional level being avoided by important investors.

Problem sources	Recommendations	Impact
<p>Reduced monitoring capacity and application of legislation on the background of a misunderstanding of the importance of property rights, including the intellectual property.</p> <p>Lack of a strict protection rule of property rights spurs piracy and repels investments in high technology that would assure development of a strategic branch where the national human and informational potential could be competitive.</p>	<p>Consolidation of application of legislation regarding intellectual property rights and creation of a partnership between the private sector and these agencies.</p> <p>Education of population (consumers) about the negative effects of disregarding or illegal use of some intellectual property upon economic growth and public interests.</p>	<p>Protection of high-tech sectors of national economy (IT) would connect the country to important markets and suppliers of intellectual services on the international level.</p> <p>Consolidation of order in this field of regulation and guaranteed property rights would increase credibility and image of the country abroad, would stabilize business projects, and consolidate the level of trust between the business environment and the state.</p>

Objective 2. Consolidate the system of mandatory execution of judicial decisions

Problem

Negative image of the judicial system is determined mostly by the reduced capacity of implementation of its own decisions.

The legislation of the Republic of Moldova foresees the possibility to contest the actions of the judicial executor which transforms the execution process of final decision in an infinite process. Many of the final decisions taken in national courts are re-contested later on at ECHR.

Problem sources

Forceful execution is usually contested and reopens the case upon which final decisions were adopted by some courts.

Recommendations

The unconditioned execution of court decisions without the right to contest the actions taken by the court.

The parties that consider that their rights have been affected by the decision execution can contest the state in court without contesting the actions of the judge.

Impact

This will ensure the rights of both parties to a fair public process. It will also strengthen the capacity of the judicial power to implement its decisions and will increase trust in justice. The responsibility of the judges will

increase depending on the obtained result.

The right of the winning party in a trial has to ensure reparation of caused damages within a definite time limit whereas disagreement with the court decision has to claim the state rather than affect the decision itself.

Objective 3: Develop alternative forms of solving work litigations

Problem

Various work litigations emerge in the activity of economic agents when the parties involved reach to conflicts related to payroll, work discipline, promotion, leave of absence, or continuing education.

All these work litigations can be solved only in court. However, appeal to court is a

very expensive and time consuming practice. Therefore, courts are addressed only in the most serious cases and the majority of work litigations remain unsolved creating an unfavorable working environment both for the employer and the employee.

Problem sources	Recommendations	Impact
Lack of alternative forms of solving work litigations. High costs for litigation settlement in court.	Creation of alternative systems of work litigation settlement: mediation and arbitration.	Creation of alternative forms of work litigation settlement will increase the access to court, reduce time spent on litigation solving, and essentially reduce the costs of conflict solving. Access to alternative forms of settlement of work litigations will reduce the number of unsolved cases and increase the quality of working environment.

PRIORITY 4:

Development and efficient use of the human capital

Recently an alarming number of Moldovan companies and foreign investors face the problem of deficit of qualified labor force. This demonstrates that Moldova is likely to lose its attractiveness of the cheap labor force being unable to use this factor to attract foreign investment and economy modernization.

Low productivity results in delay of salary growth compared to the level of the states towards which Moldovan labor force tends to migrate. This fact even more highlights the deficit of labor force and lack of qualified experts in all sectors of economy especially in the most dynamic branches as IT, constructions, and service.

More and more employers are concerned about the incapacity of the national education system to supply demands of the market. Also a decline in quality of education can be noticed.

Lack of well defined mechanisms, that would adapt the level of qualification of employees to the existent market demands forces the enterprises to work by themselves on the level of professional training of employees thus assuming certain subsequent risks.

OBJECTIVES FOR 2009

1. Liberalize the system of wage payments by applying the single mandatory indicator: the national base salary.
2. Abolish the maximum limit of social security contributions maintaining the mandatory maximum limit.
3. Enact legislation regarding the practice of granting "social packages" by the employers.

OBJECTIVES FOR THE NEXT 3 YEARS

1. Adjust the education system and professional training to the needs of the national economy.
2. Balance the interests and rights of employers and employees in order to assure protection of both parties.
3. Develop and stimulate the national system of optional retirement plans.

OBJECTIVES FOR 2009

Objective 1: Liberalize the system of wage payments by applying the single mandatory indicator: the national base salary

Problem

The current system imposes restrictions and conditions inherited from the old Soviet system in terms of hiring and remunerating the staff in private enterprise.

Thus, we may notice an unjustified regulation intervention of the state in a field that is an exclusive competence of the managerial factor from the business sector.

The state can only establish minimum salary limits for the private business sector. The payroll model represents a factor of economic competitiveness and often

enough private companies take advantage of using innovations in the payment system of their employees.

It is necessary to reform of the payment system, transfer from fixed salaries to independent payment systems maintaining the term of base salary.

Although it is recommended to introduce certain restrictions, most factors should be regulated within free labor market. Diversification of the social tax will eliminate undeclared payments.

Problem sources	Recommendations	Impact
<p>The current law (Labor Code and the Law on Salary Payment) keeps a series of restrictive stipulations regarding employment and payment of the staff which is compulsory for application in private sector as well.</p> <p>The state could regulate only the enterprises that use state funds rather than the private sector where only the owners can take final decisions regarding remuneration of their employees.</p>	<p>Introduction of the definition of national base salary, a compulsory indicator for all employers disregarding their form of activity and legal status.</p> <p>Protection of the private sector against actions of state agencies that establish mandatory rules and norms of salary payment.</p>	<p>Liberalization of the payroll system will allow diversification of systems and methods of compensation and motivation of the personnel with the introduction of various modern management forms.</p> <p>As a result, the competition between economic agents will grow regarding attraction of qualified labor force by using complex motivation schemes of personnel.</p>

Objective 2: Develop the legal framework of negotiation and establishment of the base salary

Problem

In Moldova the practice of establishment of the base salary was introduced in 2001. The law on establishment and revision of the base salary clearly states that this has to be done at least once a year. However, throughout the last nine years, the base salary has been revised only four times. Although the law also regulates who are the participants in negotiation of the limit, this process is somewhat troublesome being determined by lack of definite description of mechanisms and procedures to be followed in the process.

Problem sources

There are no criteria to be followed while determining the base salary.

Experts in the field of payment policy are not involved in the process.

There is no consistent methodology in establishing the base salary.

There is no vision upon the subsistence wage.

Recommendations

It is recommended to establish the limit of the base salary mandatory for all entities, disregarding their legal status, i.e. state, private, or other forms of entities.

It is necessary to provide transparency in the negotiation process in order to avoid situations when the base salary is not revised annually.

Impact

In case the base salary is revised on the principles of equality for all so-

cial partners on a regular basis, i.e. yearly, it will provide an efficient legal framework for liberalization of the payment system.

Objective 3: Abolish the maximum limit of the social security contribution maintaining the mandatory maximum limit

Problem

The current system of social security does not ensure the necessary social protection of the employees.

Those with high revenues do not have access to an integrated social protection being

limited in their rights to transfer more funds for social security (up to 5 base salaries), accordingly, at retirement, the pensions allotted by state will be much lower than the social status before retirement.

Problem sources	Recommendations	Impact
<p>The system of welfare represents a leveling system which does not allow employees with high wages to ensure corresponding pensions.</p> <p>This seriously affects the motivation of employees to pay social contributions. Lack of an alternative system of formation of optional retirement plans for certain categories of persons with higher revenues.</p>	<p>Abolishment of the maximum limit of social security contributions maintaining the maxim compulsory limit.</p>	<p>Ensuring individual freedom regarding social security by paying more money from their current revenues for a higher retirement pension in the future.</p> <p>Increase in social security revenues.</p>

Objective 4: Enact legislation regarding the practice of granting “social packages” by the employers

Problem

Economic development will spur competition among economic agents for qualified labor force. Also, each employer will be concerned in terms of their employees' loyalty. Another important factor is the growth of social responsibility of businesspeople regarding the employees' demands.

In order to overcome these challenges, economic agents will have to offer more facilities to their employees, among them food tickets, vacation packages, kindergarten places for their

children, travel season tickets. All these facilities favor the attractiveness of an enterprise, makes the employees loyal, improve working conditions and respectively work productivity, etc.

However, even if the economic theory explicitly foresees more forms of personnel motivation, the offered facilities are directly linked to the production process, economic agent have difficulties when they want to include these expenditures in costs.

Problem sources	Recommendations	Impact
<p>Public authorities do not recognize expenses on non-monetary incentives offered by the employers as production costs.</p>	<p>Introduction in the national legal framework of the term „social package” that would comprise the entire spectrum of facilities offered by the employers to the personnel.</p> <p>The adjacent expenditures of the social package have to be treated as production costs and respectively be deductible from the profit tax paid by economic agents.</p>	<p>The possibilities of employers to motivate employees will grow, the working conditions of employees will become better and this will lead to an increase in productivity. The loyalty of employees towards the company will grow and this will reduce fluctuations in personnel.</p>

OBJECTIVES FOR THE NEXT 3 YEARS

Objective 1: Adjusting the education system and professional training to the needs of the national economy

Problem

Elaboration of an educational strategy harmonized with the demands of the national economy.

The educational system does not the needs of the national economy. As a result, trained specialists do not satisfy the minimum needs of the economic agents.

As a result, the state and parents allot enormous resources for the professional training of young specialists and later on economic agents need to re-allot their own financial means to retrain the specialists according to their needs.

Problem sources

The educational system works independently from the business environment.

Professional training is carried out without identification of real needs of the national economy.

Economic agents need to double the effort of the state in preparing professionals by allotting their own means for retraining of young specialists.

Recommendations

We suggest setting up the Agency for Professional Adult Training.

Educational curricula have to be developed together with the business environment.

The state should provide a balanced

support to alternative educational systems.

Economic agents should be motivated to cooperate with the educational institutions.

The state should offer a 50% compensation on expenses of the private sector for training and professional education.

Impact

Financial efforts of the state, employees, and employers in the professional training will be unified.

This fact will ensure a synergy effect on the system, will reduce educational costs, and will increase the quality of professional education.

Objective 2: Balance the interests and rights of employers and employees in order to assure protection of both parties

Problem

Even if the Labor Code was adopted in 2003, it was founded on the former labor code of 1973. The philosophy of the labor code origins in the logic of functioning of the soviet economy when, on the one hand, there existed large state enterprises, and on the other hand, the “insignificant” employees.

There is serious competition in market economy among employers. Respectively the

labor code has to ensure a balance of obligations and interests between employers and employees.

The current stipulations of the labor code are practically impossible to be fully achieved, and as a result, the gap between the legal framework of the working relations and existent practices in the Republic of Moldova grows enormously.

Problem sources	Recommendations	Impact
<p>Employees should obtain a privileged treatment in the labor code.</p> <p>The misbalance between rights and obligations of employees and rights and obligations of employers has to be eliminated.</p>	<p>Employers and employees have to benefit of equal treatment.</p> <p>The stipulations of the Labor Code have to insure a balance in interests of both parties</p>	<p>Balance of interests of employers and employees will lead to the set up of normal working conditions where the used practices will correspond to the legal stipulations and vice-versa.</p> <p>The current situation when the labor code offers a multitude of advantages to the employers not implemented in reality will disappear.</p>

Objective 3: Develop and stimulate the national system of optional retirement plans

Problem

Diversification of populations' revenues imposes also a diversification of forms of social security for persons engaged in the national economy.

The existent system is a leveling one and does not meet the expectations of different social categories; it does not stimulate accumulation of savings and does not provide protection of the population according to the market economy spending all savings on current needs.

Problem sources

Lack of optional retirement plans.

Lack of traditions that would encourage the acceptance of private pensions.

Lack of social security agents on the market.

Recommendations

It is important to encourage civic participation in diverse retirement plans by which the state would guarantee stability and protection of employees.

Impact

Diverse forms of social insurance will emerge.

Sense of security about the future will increase. Reorientation of some important revenues of the population from consumption to investment funds similar to those used in banking.

Objective 4: Develop the legal framework and promote positive experience in protecting business managers;

Problem

Labor regulations as well as labor contracts clearly determine the relationships between the employer and the employee and provide a viable system of employee protection. However, the problem regarding protection of employers/ entity managers is still unsolved being ignored because of the status of this party.

Entity managers are not protected, there are no unions to fight for their rights, whereas they are very vulnerable in such issues as firing and right protection.

The vague status of the manager versus that of the owner and lack of any system of protection frequently forces managers

to take decisions that contradict the owners' interests.

At the same time under conditions of complete lack of legal framework that would regulate the relationships between entity managers and owners, the former make attempts to protect their rights by themselves, some of the measures edging legality, being to the detriment of the owner.

Introduction of a legal framework that would promote protection of the entity manager will bring about benefits for both the manager and the owner since the protected manager will only act in the interests of the business entity.

Problem sources

There is no legal framework regarding protection of entity managers.

Vulnerability of managers in terms of decisions on their firing.

There is no advanced experience in terms of protection of entity managers.

Recommendations

Insure legal procedures that would provide protection of the employer's rights.

Develop and promote advanced systems of protection of the manager's rights by introducing damage reimbursements worth two-year payments in case of forceful firing of a top manager with over ten-year impeccable work experience.

Impact

Sense of protection on behalf of the manager will reduce probability of his/her acting against the interests of the owner.

Relationships regulated by the law will impose control over undesirable aspects of the manager's activity.

PRIORITY 5:

Promotion of investment and facilitation of foreign trade

The government of the Republic of Moldova managed to successfully complete the process of negotiations of the commercial preferential regime with the EU and the CIS.

The asymmetric system of commerce creates important opportunities in exports growth and increase in commercial preferential transactions with the EU members.

However, the competitive potential does not focus on the consolidation of production capacities but continues to be based on more reduced expenditures in regards to the labor force which is so low that this indicator in the Republic of Moldova overcame the level of the same indicator in China.

Among the main reasons that slow down the process of consolidation of the export capacity of Moldovan enterprises we can list the underdevelopment of advanced technologies, non-satisfactory implementation of management and marketing strategies.

OBJECTIVES FOR 2009

1. Create insurance plans to protect mortgage investments.
2. Assure non-discriminatory, equal rights to all non-resident economic agents regarding procurement of agricultural estates.
3. Offer grants for promotion of locally produced goods outside the country.
4. Decentralize the system of land tenure by delegating regulating functions from the central level to the local one.

OBJECTIVES FOR THE NEXT 3 YEARS

1. Consolidate the export potential of Moldovan companies by organizing exchanges and transfers of knowledge and technologies.
2. Promote diversity in financial instruments and institutions.
3. Reform and develop the system of transportation.

OBJECTIVES FOR 2009

Objective 1: Create a mortgage loan system for capital investment

Problem

Economic development of a country is ensured by the access of economic agents to financial resources offered by financial institutions in a sufficient amount. In a developing economy, as the one of Moldova, the amount of financial resources available has to be at least equal to 60% of the GDP.

In our case, however, it fluctuates around 50% and due to high pressure of inflation, the National Bank of Moldova fights against the liquidities problem to strengthen the financial policy.

As a result, we have excess of liquidities in the conditions when the monetary mass

is much under the admissible limit. The fight of the NBM against inflation leads to higher prices on crediting resources that cause increase in production costs, and consequently, higher inflation rate.

Moreover, in the situation when economic agents suffer from lack of financing, the NBM is forced to pay interest on financial resources withdrawn from circulation to ensure the macroeconomic stability. Hence, the incapacity of the economy to assimilate money provokes the slowdown of economic growth and expenditures for sterilization of the monetary mass.

Problem sources	Recommendations	Impact
<p>The capacity of economic agents to contract loans is reduced, as well as that of commercial banks to offer credits. Thereby, we have an underfinanced economy and a surplus of liquidities in the financial system.</p> <p>In such situation, the NBM imposes the sterilization of the monetary mass and hardens the monetary policy in the conditions of limited capacity of the economic agents to take credits.</p> <p>The need to ensure with a loan of up to 140% from the contracted amount is a serious barrier that prevents economic agents from using financial resources..</p>	<p>Creation of a new fund of investment loans contracted by economic agents.</p> <p>Banks will be responsible for the rate of non-reimbursed loans offered through the loan program so that they do not overcome the average on the banking system (nearly 5%).</p> <p>Thus, economic agents will pass through all procedures of contract procedure with the exception of the need to offer loans.</p>	<p>Amounts necessary for sterilization of monetary mass (400 million lei annually) would allow offering investment loans of 8 billion lei. These investments are comparable to the current volume of investments in Moldova.</p> <p>The loan policy of investments would allow the amplification of relations between the financial sector and business environment as well as money orientation from the market of current expenditures which causes pressures upon inflation.</p> <p>The mechanism of combating inflation by freezing the capital will lead to economic growth and avoid the slow down taking place today.</p>

Objective 2: Non-discriminatory rights for economic agents in fields of agricultural terrain procurement

Problem

The national legislation discriminates economic agents depending on their national affiliation. Thus, foreign investors are prevented from the right to purchase agricultural estates.

This restriction to market access of agricultural estates results in underdevelopment of this branch of economy, reduced capitalization of agriculture, and minimal capacities to attract financial resources. Hence, lack of financial resources and modern technologies leads to a 3-5 times lower agricultural rate than in other European states; the added value is incomparable to the European practices.

For an efficient functioning of the agricultural sector, the annual capital turnout in agriculture has to equal nearly 1.5 billion EURO.

Problem sources

Discrimination of economic agents on criteria of national affiliation.

Granting of a special status to agricultural estates unlike other property forms.

Recommendations

Application of the non-discriminatory principle to economic agents.

Impact

Liberalization of the agricultural market will lead to a 5-10 times growth in the agricultural sector fun-

ding. As a result, the capacity of agricultural producers to attract financial resources in the sector will increase significantly.

New foreign investors will also bring modern technologies in agriculture and create a healthy competition between the so-called „champions“ of the field. Each economic branch needs such kind of „champions“ to insure sustainable and long-lasting development.

Available financial resources, increase in capitalization in agriculture, and emergence of champions will incense the growth of added value in agriculture to at least 2-3 times in the immediate period after.

Objective 3: Offer grants for promotion of locally produced goods outside the country

Problem

The economy of the Republic of Moldova is one of the most open economies where the share of the foreign trade exceeds 100% of the GDP, much higher indicator than the European average.

However, the openness of the economy goes one way only, thus the imports in Moldova

have a concerning rate in the total of the foreign trade and are nearly 3 times larger than Moldovan exports.

The utter priority in foreign trade is the maximum stimulation of the export potential of the national economy.

Problem sources	Recommendations	Impact
<p>Exports of local products onto foreign markets are impeded by the reduced level of competitiveness of the national economy.</p> <p>Low potential of access to new markets.</p> <p>Insufficiency of financial resources to succeed on new markets.</p>	<p>Stimulation of inclusion of national associations of producers into professional association.</p> <p>Partial compensation of participating costs to international exhibitions.</p> <p>Co-financing promotion actions of local goods on foreign markets.</p>	<p>Co-financing promotion actions of local production onto foreign markets will serve as an incentive for economic agents to allot financial resources for promotion activities.</p> <p>Combined efforts of the business environment and state authorities will serve the private interests of the business on the one hand and will serve the public interests on the other as it will increase experience and create positive image of Moldova as a country producing certain goods and services.</p> <p>Namely the possibility to grow the image as a whole of the country, due to certain particular actions of products promotion, explains the rationale why the government should co-finance promotion activities of the local goods on foreign markets.</p>

Objective 4: Decentralize the system of land tenure by delegating regulating functions from the central level to the local one

Problem

Lack of estates with industrial destination is a major impediment in the economic development of the Republic of Moldova. All surfaces that match industry needs were distributed during the soviet time when the last urban development plans were developed.

In present, Moldovan towns do not have urban plans and existent estates are over-solicited.

Introduction of new estates in the industrial circuit is practically impossible due to defective procedures, high costs of withdrawing from the agricultural circuit, and the fact that the decision is not taken at local level but at central government level.

In the situation when tens of thousands of hectares of agricultural lands are not used, the industry suffers from lack of development spaces and local authorities cannot contribute to the solution of the problem.

Problem sources

The decision to change the destination of agricultural lands in industrial estates is not taken by local public authorities but

by the Government.

Procedures of changing the destination are very time consuming and need significant financial resources.

Recommendations

The competence of changing the destination of estates has to be transferred from central to local level.

Impact

The transfer of competence to change the destination of estates at local level would allow the

speed up of the process of introduction in the industrial circuit of agricultural lands and consolidate the relations between the business and local authorities.

The funds obtained from estate selling will be used at the local level (where the need of industrial terrain emerged), which will increase the capacity of local authorities' to develop the infrastructure.

Thus, besides a simpler access to industrial terrains, business entities will also have a developed infrastructure. Further, the transfer of competences will allow the development of partnerships between public and private sectors in the field of local economic development.

OBJECTIVES FOR THE NEXT 3 YEARS

Objective 1: Consolidate the export potential of Moldovan companies by organizing exchanges and transfers of knowledge and technologies

Problem

In the Republic of Moldova, the internal mechanisms of knowledge transfer as well as external mechanisms, especially those insured by foreign buyers, are weak or totally absent.

Due to intense competition, companies from the Republic of Moldova are not in a strong position to solicit technical assistance and to obtain the know-how technologies on their own; they do not have

sufficient financial, human resources, or information.

As a result, many companies rely only on the support of outside donors even though only investments can bring about radical changes in the situation.

Problem sources	Recommendations	Impact
Lack of know-how and modern economic knowledge. Isolation of the local business from the international intellectual circuit.	Granting support to local enterprises to acquire the capacity of technology and knowledge management. Stimulation of investments in new technologies and knowledge attraction.	Increase in export competitiveness and consolidation of penetration capacities and maintenance of exporting markets. High capacities for attraction of strategic investments by the local enterprises. Development of a competitive and attractive national environment for Moldovan companies and foreign investors.

Objective 2: Diversify financial institutions and instruments

Problem

Restrictive policy of the Moldovan National Bank, cumulated with the lack of alternative financial resources, creates impediments for economic agents in obtaining financial resources for capital investments.

Thus, the entire burden of financial provision of the business environment relies on the banking sector which developed dynamically in previous years and currently has liquidities of over 50% of GDP.

For normal economic development, however, the liquidities from the economy have to make at least 60-70% of the GDP. To achieve this it is strictly necessary to create and consolidate other forms of financial institutions.

In economics it is known that long-term investments (at least 5 years) can be realized only on the interest rate of under 10%. In the situation of macroeconomic instability when the inflation rate equals 13-15% annually and the NBM obliges commercial banks from Moldova to have mandatory reserves of at least 22%, this raises significantly the price of money for commercial banks and as a result, they are imposed to offer credits with a 20-22% interest rate.

Thus, the NBM policy on reducing inflation by raising mandatory reserves leads to the increase in price of the financial resources for the business environment and consequently the prices go up.

High achievements of commercial banks, on the one hand, and limited access of economic agents, on the other, brings us to the thought that the real cause of the investment problems are related to the deficient macroeconomic policy and lack of alternative financial institutions.

Problem sources

Deficient macroeconomic policies.

Lack of alternative financial institutions.

Low level of monetization of economy.

Recommendations

Elaboration of macroeconomic and monetary policies based on the interests of national economic development.

Monetary policy has to spur flow of money towards capital investments.

70% increase of monetization level of economy in the period immediately after.

Development of alternative financial institutions and instruments.

Impact

Change in monetary policy, reduction of restrictive measures imposed by the NBM to the commercial

banks, increase in the monetization rate of the GDP to minimum 70% will increase the capacity of banks to finance long-term capital investments and will reduce the financial flow oriented towards current consumption, will positively impact the inflation rate.

Increase in the level of monetization of the GDP has to be done simultaneously to development of new financial institutions and products.

Thus, the burden of the banking sector in maintaining by itself the entire existent financial system in economy will be reduced, fact that will increase efficiency of the existent system and will reduce costs of investment attraction.

Diversification of financial instruments will increase the access of enterprises to long-term qualitative financial resources.

Stimulation by the state of financial products development for branches oriented towards export (such as crediting in various forms of foreign consumers of local products) would increase the export possibilities of local enterprises, as well as their competitiveness and would stimulate consumption of Moldovan goods abroad.

Objective 3: Reform and develop the system of transportation

Problem

Despite efforts, put throughout the independence period, in reforming and developing the transportation infrastructure, the formal privatization through granting shares to enterprises from the transportation system, especially in the current format of the State Roads Administration (SRA), did not do anything than to worsen the situation making Moldova one of the least developed regions.

The actual transportation system does not offer equal opportunities to investors in rehabilitation and development of land transportation infrastructure, does not motivate qualitative construction works, maintenance of roads, and circulation security.

Excessive administration of the transportation Fund by the SRA and group interests structured throughout many years impede all attempts to reform and develop the infrastructure.

Low payments in the budgetary system generate an additional problem, - the one of the staff in

the ministries where persons lacking professionalism are recruited.

It is known that during the independence period the share of the land Transportation Fund of the GDP did not exceed 0,5-0,6% while calculations of international specialized institutions consider that the minimum limit of preventing roads degradation is 0.93%, rehabilitation starts with the limit of 1.3 %, and the network development at 1.7% of the GDP.

The directive of the Council of Europe 96/53 establishes maximum admitted dimensions in the national and international traffic and maximum admitted weight in the international traffic for certain vehicles that circulate within the European Union.


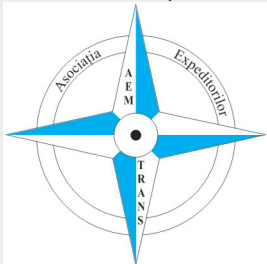


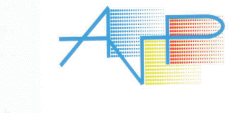
In order to achieve this directive and to respect the terms proposed for implementation within this program, Romania, for example, allotted 1.5% of the GDP to set up the TINA network, a pre-accession European condition.

Problem sources	Recommendations	Impact
<p>The Land Transportation Fund is a component part of the consolidated budget and respectively does not imply autonomy in functioning.</p> <p>Excises, as form of transportation contribution, are not transferred to the land transportation fund but are perceived as income of the state budget.</p> <p>As a result, the transporters pay equal sums in the land transportation fund (transportation fee) rather than sums equivalent to the intensity of use of roads (excises).</p> <p>The system of concession of construction workers, modernization and exploitation of roads is not liberalized.</p> <p>The conflict of interests at State Road Administration that is responsible for constructions and control over the quality of roads.</p>	<p>Separation of the Transportation Fund from the consolidated budget so that these resources can have a special importance and can be used only for maintenance and reparation of existent public roads.</p> <p>Establishment of the Transportation Fund from transportation fees and excises in amount of minimum 1% of the GDP.</p> <p>Liberalization of contracting through concession of construction works, modernization, and exploitation of roads.</p> <p>Development of a strategic plan regarding modernization and adjustment to the pan-European network roads.</p> <p>Set up the Association on Highways and National Roads in the Republic of Moldova.</p>	<p>Development of land transportation infrastructure is a precondition for ensuring national economic development. Separation of the Transportation Fund from the state budget and its development according to the minimum needs of maintenance of networks of roads will allow the rehabilitation of the over-used infrastructure.</p> <p>Delimitation of competences of coordination, control, and implementation will increase the quality of carried out works and ensure competitiveness in the system of road construction and maintenance.</p>

IMPLEMENTATION OF THE NATIONAL BUSINESS AGENDA: THE TIMELINE AND ASSESSMENT INDICIES

2009	2010	2011
<p>1.4 Stir social dialogue between the authorities and business entities based on the principles of equality</p> <p>3.1 Exclude any form of property expropriation beyond judicial procedures</p> <p>4.1 Liberalize the system of wage payments by applying the single mandatory indicator: the national base salary</p> <p>4.2 Develop the legal framework of negotiation and establishment of the base salary</p> <p>4.4. Legiferarea practicii de acordare a „Pachetelor sociale” de către angajatori</p> <p>5.1 Create insurance plans to protect mortgage investments</p>	<p>1.3 Establish the Institution of the Ombudsman for Private Entrepreneurship with the aim to protect the rights of private enterprise from the Republic of Moldova</p> <p>2.1 Introduce an integrated taxation procedure for natural persons simultaneously increasing tax allowance to the level of the base salary</p> <p>2.2 Abolish prior VAT collection while importing equipment and machinery</p> <p>5.3 Offer grants for promotion of locally produced goods outside the country</p> <p>5.4 Decentralize the system of land tenure by delegating regulating functions from the central level to the national one.</p>	<p>1.2 Apply the presumption of innocence in relations between the Agency for Competition Protection and private business</p> <p>3.2 Separate the budgetary process of judicial courts and their distinct administration within the overall system of the public budgeting process</p> <p>3.3 Develop clear policies of protection of all forms of property, including intellectual, patrimonial, artistic property, etc.</p> <p>4.3 Abolish the maximum limit of social security contributions maintaining the mandatory maximum limit</p> <p>5.2 Assure non-discriminatory, equal rights to all non-resident economic agents regarding procurement of agricultural estates</p>
<p>1.5 Optimize the procedures of mandatory reporting to state and public institutions on behalf of business entities</p> <p>1.6 Revise and improve the system of offering government subsidies and support to entities specializing in agriculture and other fields</p> <p>1.7 Create an integrated, efficient system in order to protect fair competition in business</p> <p>1.8 Revise and improve the system of offering government subsidies and support to entities specializing in agriculture and other fields</p> <p>1.9 Complete the process of integrative codification of the fiscal legislation</p> <p>2.3 Gradual shift of social security payments from the employer to the employee</p> <p>2.4 Simplify the VAT management system</p> <p>2.5 Improve the process of development of fiscal policies</p> <p>2.6 Liberalize the market of medical insurance</p> <p>3.3 Develop clear policies of protection of all forms of property, including intellectual, patrimonial, artistic property, etc.</p> <p>3.4 Consolidate the system of mandatory execution of judicial decisions</p> <p>3.5 Develop alternative forms of solving work litigations</p> <p>4.5 Adjust the system of economic education and professional training to the needs of the national economy</p> <p>4.6 Develop and stimulate the national system of optional retirement plans</p> <p>4.7 Develop the legal framework and promote positive experience in protecting business managers</p> <p>4.8 Develop and stimulate the national system of optional retirement plans</p> <p>5.5 Consolidate the export potential of Moldovan companies by organizing exchanges and transfers of knowledge and technologies</p> <p>5.6 Promote diversity in financial instruments and institutions</p> <p>5.7 Reform and develop the system of transportation infrastructure</p>		

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